

**Town and Country Village  
Homeowners Association, Inc.**  
Financial Statements  
And Supplementary Information  
For the Year Ended August 31, 2010

With Independent Auditors' Report

**Town and Country Village Homeowners Association, Inc.**

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Revenues, Expenses, And Changes in Fund Balance	3
Statement of Comprehensive Income (Loss)	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
Supplementary Information about Future Major Repairs and Replacements	12

# **Brashier & Foss, CPAs, PC**

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## **Independent Auditors' Report**

To the Board of Directors and Members of  
Town and Country Village Homeowners Association, Inc.

We have audited the accompanying balance sheet of Town and Country Village Homeowners Association, Inc. as of August 31, 2010, and the related statements of revenues, expenses, and changes in fund balance, comprehensive income (loss), and cash flows for the year then ended. These financial statements are the responsibility of Town and Country Village Homeowners Association, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Town and Country Village Homeowners Association, Inc. as of August 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Supplementary Information about Future Major Repairs and Replacements on page twelve is not a required part of the basic financial statements of Town and Country Village Homeowners Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Brashier & Foss, CPAs, PC*  
Brashier & Foss, CPAs, PC

May 11, 2011

**Town and Country Village Homeowners Association, Inc.**  
**Balance Sheet**  
**August 31, 2010**

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 172,722	\$ 360,819	\$ 533,541
Held to Maturity Securities		106,340	106,340
Available for Sale Securities		411,659	411,659
Accrued Interest Receivable		1,174	1,174
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$52,181	110,820		110,820
Prepaid Insurance	4,989		4,989
Prepaid Income Taxes	4,122		4,122
Property & Equipment, Net of Accumulated Depreciation of \$114,540 for Operating Fund; of \$6,994 for Replacement Fund	56,163	169,851	226,014
Due from Operating Fund		5,255	5,255
	\$ 348,816	\$ 1,055,098	\$ 1,403,914
<b>Total Assets</b>			
<b>LIABILITIES AND FUND BALANCE</b>			
Held Checks	\$ 27,744	\$ -	\$ 27,744
Accounts Payable	100,916		100,916
Payroll Payable	5,731		5,731
Assessments Received in Advanced	31,456		31,456
Due to Replacement Fund	5,255		5,255
	171,102	-	171,102
<b>Total Liabilities</b>			
Fund Balance	177,714	1,046,958	1,224,672
Other Comprehensive Income		8,140	8,140
	177,714	1,055,098	1,232,811
<b>Total Fund Balance</b>			
<b>Total Liabilities and Fund Balance</b>	\$ 348,816	\$ 1,055,098	\$ 1,403,914

The accompanying notes are an integral part of the financial statements.

**Town and Country Village Homeowners Association, Inc.**  
**Statement of Revenues, Expenses,**  
**And Changes in Fund Balance**  
**For the Year Ended August 31, 2010**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Member Assessments	\$ 944,673	\$ 237,636	\$ 1,182,309
Interest	703	15,062	15,765
Insurance Claims Proceeds	45,281	610,035	655,315
Rental		14,200	14,200
Other	49,165		49,165
	<u>1,039,823</u>	<u>876,933</u>	<u>1,916,756</u>
<b>EXPENSES</b>			
Utilities	535,729		535,729
Grounds Maintenance	116,075		116,075
Building Maintenance	71,217		71,217
Management/Payroll Expenses	67,315		67,315
Insurance	64,059		64,059
Snow Removal	48,767		48,767
Pool Maintenance	31,873		31,873
Administrative	21,991		21,991
Depreciation	10,682		10,682
Office Rent	8,760		8,760
Income Tax Expense	4,354		4,354
Professional Fees	3,757		3,757
Replacement Fund Expenses:			
Hail Damage		686,688	686,688
Professional Fees		34,404	34,404
Fences		30,825	30,825
Loss on Sale of Investments		15,120	15,120
Depreciation		4,534	4,534
Other		38,826	38,826
	<u>984,579</u>	<u>810,396</u>	<u>1,794,975</u>
Total Expenses	<u>984,579</u>	<u>810,396</u>	<u>1,794,975</u>
Excess of Revenues Over Expenses	55,244	66,537	121,780
Fund Balance, September 1, 2009	<u>122,470</u>	<u>980,421</u>	<u>1,102,891</u>
Fund Balance, August 31, 2010	<u>\$ 177,714</u>	<u>\$ 1,046,958</u>	<u>\$ 1,224,672</u>

The accompanying notes are an integral part of the financial statements.

**Town and Country Village Homeowners Association, Inc.**  
**Statement of Other Comprehensive Income (Loss)**  
**For the Year Ended August 31, 2010**

	Operating Fund	Replacement Fund	Total
Excess of Revenues Over Expenses	\$ 55,244	\$ 66,537	\$ 121,780
Other Comprehensive Income (Loss):			
Unrealized Holding Gain on Available for Sale Securities		8,140	8,140
Comprehensive Income (Loss)	\$ 55,244	\$ 74,677	\$ 129,921

The accompanying notes are an integral part of the financial statements.

**Town and Country Village Homeowners Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess of revenues over expenses	\$ 55,244	\$ 66,537	\$ 121,780
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	10,682	4,534	15,216
Loss on Sale of Investments		15,120	15,120
(Increase) decrease in:			
Accrued Interest Receivable		1,864	1,864
Assessments Receivable	(61,263)		(61,263)
Prepaid Insurance	2,368		2,368
Prepaid Income Taxes	(4,122)		(4,122)
Increase (decrease) in:			
Held Checks	27,744		27,744
Accounts Payable	(27,808)		(27,808)
Payroll Payable	12		12
Assessments Received in Advanced	1,080		1,080
Income Taxes Payable	(8,006)		(8,006)
Insurance Proceeds Payable		(610,035)	(610,035)
Net Cash Used by Operating Activities	<u>(4,070)</u>	<u>(521,980)</u>	<u>(526,050)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Maturity of Certificates of Deposit		350,007	350,007
Net Purchase of Available for Sale Securities		(284,101)	(284,101)
Purchase of Fixed Asset	(431)		(431)
Net Cash Provided (Used) by Investing Activities	<u>(431)</u>	<u>65,906</u>	<u>65,475</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Interfund Accounts	(685)	685	-
Net Cash Provided (Used) by Financing Activities	<u>(685)</u>	<u>685</u>	<u>-</u>
Net Decrease in Cash	(5,186)	(455,389)	(460,574)
Cash, September 1, 2009	<u>176,030</u>	<u>816,208</u>	<u>992,238</u>
Cash, August 31, 2010	<u>\$ 170,844</u>	<u>\$ 360,819</u>	<u>\$ 531,664</u>
<b>Supplemental Information</b>			
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid	<u>\$ 16,482</u>	<u>\$ -</u>	<u>\$ 16,482</u>

The accompanying notes are an integral part of the financial statements.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Town and Country Village Homeowners Association, Inc. is a statutory homeowners' association which was organized as a Colorado non-profit corporation on December 23, 1982, for purposes of maintaining and preserving common areas of the development owned jointly by members of the Association. The development consists of 501 single family homes and is located in Parker, Colorado.

**Fund Accounting**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

<i>Operating Fund</i>	This fund is used to account for financial resources available for the general operations of the Association.
<i>Replacement Fund</i>	This fund is used to accumulate financial resources designated for future major repairs and replacements.

**Basis of Accounting**

Both the accompanying financial statements and related corporate income tax returns have been prepared in accordance with the accrual method of accounting.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchases with a maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk**

The Association has one source of accounts receivable, homeowners. Accounts receivable from homeowners may be secured by a lien upon their unit. The Association has adjusted accounts receivable for all known uncollectible accounts.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies - continued**

**Allowance for Doubtful Accounts**

The Association's policy is to enforce collection of assessments by retaining legal counsel and by placing liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances. However, the Association has adopted the allowance for doubtful accounts method of providing for assessments which may not be collected during the next twelve month period.

**Common Area**

Title to the common area has been deeded to the Association by the developer. The common area properties are not reflected in the accompanying financial statements because the association owns an undivided ownership interest in the common area properties.

The disposition of common property is restricted by the Association's governing documents, but the Association may decide to dispose of the capitalized property by approval of the unit owners.

Property and equipment are stated at cost, net of depreciation. Depreciation is computed using the modified accelerated cost recovery system. The Association uses tax depreciation methods for the book depreciation.

Property and equipment are summarized by major classifications as follows:

Operating Fund:

Land	\$ 17,761
Pool Building	35,852
Furnishings and Equipment	<u>117,090</u>
	170,703
Less accumulated depreciation	<u>(114,540)</u>
	<u>\$ 56,163</u>

Replacement Fund:

19606 Rosewood Court	\$176,845
Less accumulated depreciation	<u>(6,994)</u>
	<u>\$169,851</u>

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies – continued**

**Interest Earned**

The Board's policy is to not allocate interest earned between funds, but rather report such interest in the fund in which it was earned.

**Pervasiveness of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Held-to-Maturity and Available for Sale Securities**

The Association has invested in certificates of deposit and debt securities with long term maturities, which are recorded at adjusted cost on the balance sheet. The Board of Directors intends to hold these securities until maturity.

The Association also had investments in common stock and mutual funds which were recorded at market value as of August 31, 2010.

*Certificates of Deposit, US Government Bonds, Government-Backed Mortgage Securities*

<u>Description</u>	<u>Adjusted Cost Basis</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>
Lehman Bros. Bank FSB	\$40,000	\$40,984	\$984	5/17/11	5.350%
Federal Home Loan BK Fixed Rate Bonds	24,983	26,110	1,127	6/03/13	2.485%
Federal Home Loan BK Bonds	25,682	27,094	1,412	10/18/13	3.625%
GNMA Gtd Mtg Pass Thru Ctfs	<u>15,675</u>	<u>16,877</u>	<u>1,202</u>	5/15/37	5.000%
	<u>\$106,340</u>	<u>\$111,065</u>	<u>\$4,725</u>		

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 2. Held-to-Maturity and Available-for-Sale Securities – continued**

*Available-for-Sale Securities*

The Association has invested in shares of common stock, mutual funds and exchange traded products, the total of which are recorded at market value on the balance sheet. The combined cost basis for all available-for-sale securities, as of August 31, 2010, was \$403,517 and combined market value was \$411,657. The combined unrealized gain was \$8,140.

**Note 3. Owners' Assessments**

Monthly assessments to owners for the year ended August 31, 2010 ranged between \$188 and \$226 based the size of the unit. Approximately 20% of total assessments were designated to the replacement fund. The annual budget and assessments of owners are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Association approved an increase in monthly assessments to range between \$191 and \$228, beginning September 1, 2010.

**Note 4. Future Major Repairs and Replacements**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

A reserve study was prepared by Bradley Property Consultants in 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. No adjustments were made for an interest rate or an inflation rate on amounts funded for future major repairs and replacements. The table included in the Supplementary Information about Future Major Repairs and Replacements on page ten is based on the study.

The Board is funding major repairs and replacements over their remaining useful lives based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from the estimated future expenditures and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 5. Federal and State Corporate Income Taxes**

The Association has filed its income tax returns for the year ended August 31, 2010 as a homeowners' association in accordance with Internal Revenue Code section 528. Under that section, the Association is not taxed on uniform assessments to members or other income received from Association members which is a function of their membership in the Association. The Association is taxed at the rate of 34.63% on its nonexempt function income, which includes interest income and revenue from nonmembers. The choice of filing as a regular corporation or as a homeowners' association is based primarily on the policy of tax minimization.

The Association incurred a combined income tax expense of \$4,354 for the year ended August 31, 2010.

**Note 6. Related Parties**

Maintenance services are provided by Western Ventures, LLC which is owned by an owner of ten homes in the Association. The Association paid \$90,580 to Western Ventures, LLC for services received during the year ended August 31, 2010.

**Note 7. Lease Agreement**

The Association has entered into a lease agreement for the rental of office space beginning November 1, 2004 renewed for another three years until October 31, 2012. Monthly rent expense for the year ended August 31, 2010 and September and October 2010 was \$730 and increased to \$760 for the following two years. Future lease commitments total \$19,700 for the remainder of the lease period following August 31, 2010.

**Note 8. Contingencies**

The Association is a party to various legal actions normally associated with homeowners' associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

**Note 9. Purchase of Unit**

In January 2009 the Association purchased a unit from foreclosure for \$164,907 and paid \$11,938 in improvements. Currently the unit is leased; however, the Association plans to sell the unit in one to two years, when market conditions have improved.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2010**

**Note 10. Insurance Claims**

The Association received two significant insurance claims settlements in the past two years, the first was for roof replacement due to hail damage and the second was to repair damage caused by a fire. Both reconstruction projects should be complete in 2011.

**Note 10. Evaluation of Subsequent Events**

Subsequent events have been evaluated through May 11, 2011, which is the date the financial statements were available to be issued.

**Town & Country Village Homeowner Association, Inc.**  
**Supplementary Information about Future**  
**Major Repairs and Replacements (Unaudited)**  
**August 31, 2010**

A reserve study was prepared by Bradley Property Consultants in 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. No adjustments were made for an interest rate or inflation rate on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property, which has not been revised.

<u>Components</u>	<u>Estimated Economic Life</u>	<u>Estimated Remaining Life</u>	<u>Estimated Current Cost</u>
Sprinkler System	25	20	\$288,000
Landscape Refurbish	5	3	10,000
Entrance Signs	30	10	4,500
Concrete Repair	5	4	40,000
Asphalt	20	16	348,700
Asphalt Seal Coat	5	2	60,375
Pool Boiler	15	14	9,500
Pool Filter	15	13	4,000
Pool Resurface	15	2	12,000
Pool Cover	10	9	4,500
Pool Deck	40	20	12,172
Pool Fence	40	20	11,025
Wood Fence & Stain	25	2-5	553,170
Mailboxes	35	15	24,000
Large Light Poles	35	15	17,000
Timber Retaining Walls	45	6	229,900
Roof	25	23	973,400
Gutters	5	5	50,100
Paint	5	5	526,050
Carpentry Repairs	5	5	65,130
Metal Handrails	35	14	<u>8,496</u>
Total			<u>\$3,252,018</u>

See Auditors' Report.