

**Town and Country Village**  
**Homeowners Association, Inc.**  
Financial Statements  
And Supplementary Information  
For the Year Ended August 31, 2012

With Independent Auditors' Report

# Town and Country Village Homeowners Association, Inc.

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# **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.  
Parker, Colorado

We have audited the accompanying balance sheet of Town and Country Village Homeowners Association, Inc. as of August 31, 2012, 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, 2012, 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

April 29, 2013

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**Town and Country Village Homeowners Association, Inc.**  
**Balance Sheet**  
**August 31, 2012**

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 65,248	\$ 1,523,697	\$ 1,588,945
Held to Maturity Securities		62,421	62,421
Available for Sale Securities		837,701	837,701
Accrued Interest Receivable		544	544
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$22,000	108,423		108,423
Prepaid Insurance	6,320		6,320
Prepaid State Income Taxes	279		279
Property & Equipment, Net of Accumulated Depreciation of \$133,831 for Operating Fund; of \$16,062 for Replacement Fund	37,324	160,783	198,107
Due from Operating Fund		5,179	5,179
<b>Total Assets</b>	<b>\$ 217,594</b>	<b>\$ 2,590,325</b>	<b>\$ 2,807,919</b>
 <b>LIABILITIES AND FUND BALANCE</b>			
Accounts Payable	\$ 63,823		\$ 63,823
Payroll Payable	5,528		5,528
Assessments Received in Advanced	41,754		41,754
Federal Income Taxes Payable	2,879		2,879
Due to Replacement Fund	5,179		5,179
<b>Total Liabilities</b>	<b>119,163</b>	<b>-</b>	<b>119,163</b>
Fund Balance	98,431	2,590,330	2,688,762
Other Comprehensive Income		(5)	(5)
<b>Total Fund Balance</b>	<b>98,431</b>	<b>2,590,325</b>	<b>2,688,756</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 217,594</b>	<b>\$ 2,590,325</b>	<b>\$ 2,807,919</b>

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, 2012**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Member Assessments	\$ 999,109	\$ 225,384	\$ 1,224,493
Investment Income	117	21,474	21,591
Gain on Sale of Investments		42,613	42,613
Insurance Claims Proceeds		1,418,421	1,418,421
Rental		17,775	17,775
Other	24,170		24,170
	<hr/>	<hr/>	<hr/>
Total Revenues	1,023,396	1,725,667	2,749,063
<b>EXPENSES</b>			
Utilities	591,421		591,421
Grounds Maintenance	116,966		116,966
Management/Payroll Expenses	71,626		71,626
Snow Removal	68,220		68,220
Insurance	77,074		77,074
Building Maintenance	27,649		27,649
Bad Debts	27,289		27,289
Pool Maintenance	22,061		22,061
Administrative	20,227		20,227
Office Rent	9,120		9,120
Depreciation	9,533		9,533
Professional Fees	2,032		2,032
Income Tax Expense	8,805		8,805
Replacement Fund Expenses:			
Other		385,164	385,164
Hail Damage		698	698
Professional Fees		50,638	50,638
19608 Rosewood Court		7,417	7,417
Depreciation - 19608 Rosewood Court		4,534	4,534
	<hr/>	<hr/>	<hr/>
Total Expenses	1,052,023	448,451	1,500,474
Excess (Deficit) of Revenues Over Expenses	(28,627)	1,277,216	1,248,589
Fund Balance, September 1, 2011	127,058	1,313,115	1,440,172
	<hr/>	<hr/>	<hr/>
Fund Balance, August 31, 2012	<u>\$ 98,431</u>	<u>\$ 2,590,330</u>	<u>\$ 2,688,762</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, 2012**

	Operating Fund	Replacement Fund	Total
Excess (Deficit) of Revenues Over Expenses	\$ (28,627)	\$ 1,277,216	\$ 1,248,589
Other Comprehensive Income (Loss):			
Unrealized Holding Gain/(Loss) on Available for Sale Securities	-	(5)	(5)
Comprehensive Income (Loss)	<u>\$ (28,627)</u>	<u>\$ 1,277,211</u>	<u>\$ 1,248,584</u>

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, 2012**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess (deficit) of revenues over expenses	\$ (28,627)	\$ 1,277,216	\$ 1,248,589
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	9,533	4,534	14,067
Gain on Sale of Investments		(42,613)	(42,613)
(Increase) decrease in assets:			
Assessments Receivable	16,583		16,583
Prepaid Insurance	(684)		(684)
Prepaid Income Taxes	2,106		2,106
Increase (decrease) in liabilities:			
Accounts Payable	(1,204)		(1,204)
Payroll Payable	(1,857)		(1,857)
Assessments Received in Advanced	16,449		16,449
Income Taxes Payable	2,550		2,550
 Net Cash Used by Operating Activities	 <u>14,849</u>	 <u>1,239,137</u>	 <u>1,253,986</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Maturity of Certificates of Deposit		5,278	5,278
Net Purchase of Available for Sale Securities		(136,481)	(136,481)
Purchase of Fixed Asset	(452)		(452)
 Net Cash Used by Investing Activities	 <u>(452)</u>	 <u>(131,203)</u>	 <u>(131,655)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Interfund Accounts	(76)	76	-
 Net Cash Provided (Used) by Financing Activities	 <u>(76)</u>	 <u>76</u>	 <u>-</u>
 Net Increase in Cash and Cash Equivalents	 14,321	 1,108,010	 1,122,331
Cash and Cash Equivalents, September 1, 2011	50,927	415,687	466,614
Cash and Cash Equivalents, August 31, 2012	<u>\$ 65,248</u>	<u>\$ 1,523,697</u>	<u>\$ 1,588,945</u>
 Supplemental Information			
Interest Paid	\$ -	\$ -	\$ -
Income Taxes Paid	<u>\$ 4,149</u>	<u>\$ -</u>	<u>\$ 4,149</u>

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

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**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.

See Independent Auditors' Report.



**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**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>117,542</u>
	171,155
Less accumulated depreciation	<u>(133,831)</u>
	<u>\$ 37,324</u>

Replacement Fund:

19606 Rosewood Court	\$176,845
Less accumulated depreciation	<u>(16,062)</u>
	<u>\$160,783</u>

See Independent Auditors' Report.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**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**

*Held-to-Maturity Investments*

The Association has invested in debt securities with long term maturities, which are recorded at market value on the balance sheet. The Board of Directors intends to hold these securities until maturity. The combined cost basis for all held-to-maturity investments, as of August 31, 2012, was \$61,298 and combined market value was \$62,421, for a combined unrealized gain of \$1,123.

*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, 2012, was \$838,829 and combined market value was \$837,701, for a combined unrealized loss of \$1,128.

**Note 3. Owners' Assessments**

Monthly assessments to owners for the year ended August 31, 2012 ranged between \$195 and \$231 based the size of the unit. Approximately 19% 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 \$201 and \$238, beginning September 1, 2012.

See Independent Auditors' Report.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**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 update was prepared by Bradley Property Consultants in 2011 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.

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

Homeowners may be taxed either as homeowners' associations or as regular corporations. For the year ended August 31, 2012, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates of 15% and 4.63%, respectively. Membership income, which consists primarily of member assessments, is not taxable. A membership loss carry forward of \$63,686 is available to offset membership income in future years if the Association files as a regular corporation. The Association incurred a combined income tax expense of \$8,805 for the year ended August 31, 2012.

The choice of filing as a regular corporation or as a homeowners' association is based primarily on the policy of tax minimization.

See Independent Auditors' Report.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**Note 6. Accounting for Uncertainty in Income Taxes**

The Association adopted the provisions of FASB ASC Topic 740 Income Taxes. ASC 740 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. ASC 740 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

At August 31, 2012, the Association had no income tax related interest or penalties recognized in the balance sheet or the statement of revenues and expenses and changes in fund balance. Additionally, the Association has no uncertain tax positions for which a reasonable possibility exists that the total amounts of unrecognized tax liabilities will significantly increase or decrease within 12 months of August 31, 2012.

Tax years that remain subject to examination by taxing authorities are years 2008/2009 and forward for the United States of America, and year 2007/2008 and forward for the State of Colorado.

**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 \$219,540 to Western Ventures, LLC for services received during the year ended August 31, 2012, which included painting and major wood replacement due to hail damage.

**Note 7. Lease Agreement**

The Association entered into a five year lease agreement for the rental of office space beginning November 1, 2004 and renewed the agreement for two more three-year periods until October 31, 2015. Monthly rent expense for the year ended August 31, 2012 and the two months of September and October 2012 was \$730. Rent increased to \$760 per month for the period from November 1, 2012 to October 31, 2015. Future lease commitments total \$28,820 for the remainder of the lease period following August 31, 2012.

**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.

See Independent Auditors' Report.

**Town & Country Village Homeowner Association, Inc.**  
**Notes to Financial Statements**  
**August 31, 2012**

**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.

**Note 10. Insurance Claims**

The Association received two significant insurance claims settlements in the past three years, for repairs to damage caused by a fire and for roof replacement and other repairs due to hail damage. The fire repairs have been completed and the hail damage project should be completed in 2013.

**Note 10. Evaluation of Subsequent Events**

Subsequent events have been evaluated through April 29, 2013, which is the date the financial statements were available to be issued.

See Independent Auditors' Report.

**Town & Country Village Homeowner Association, Inc.**  
**Supplementary Information about Future**  
**Major Repairs and Replacements (Unaudited)**  
**August 31, 2012**

A reserve study update was prepared by Bradley Property Consultants in 2011 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	14	\$347,760
Landscape Refurbish	5	2	25,000
Entrance Signs	30	4	7,500
Concrete Repair	5	5	50,000
Asphalt; Overlay	20	10	724,500
Asphalt Seal Coat	5	5	50,313
Pool Boiler	15	8	10,500
Pool Filter	15	7	6,000
Pool Resurface	15	14	16,000
Pool Cover	10	3	4,500
Pool Fence	40	11	11,025
Wood Fence & Stain	25	15-18	465,440
Mailboxes	25	22	40,000
Large Light Poles	35	11	24,480
Wood Retaining Walls	45	2	150,480
Roof: Done 2003	25	17	947,024
Roof: R&R 2011	40	40	685,776
Gutters	20	3	46,969
Paint	6	2	601,200
Carpentry Repairs	6	2	50,100
Metal Handrails	35	5	11,800
Total			<u>\$4,276,367</u>

See Independent Auditors' Report.