

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Governor's Ranch Homeowners Association, Inc.
Littleton, Colorado

We have audited the accompanying balance sheet of the Governor's Ranch Homeowners Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association'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 the Governor's Ranch Homeowners Association, Inc. at December 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of revenues and expenses-budget versus actual-operating fund and supplemental information on future major repairs and replacements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

McNurlin & Associates, P.C.
McNurlin & Associates, P.C.
Lakewood, CO
February 1, 2011

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Balance Sheet
December 31, 2010

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>(Memo only) Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 229,721	\$ 113,647	\$ 343,368
Investments	37,781	279,621	317,402
Prepaid expenses	5,267	-	5,267
Due from Capital Reserve Fund	21,614	-	21,614
Assessments receivable	10,956	-	10,956
Total current assets	305,339	393,268	698,607
Fixed Assets			
Land and improvements	-	615,673	615,673
Buildings	-	382,634	382,634
Furniture and fixtures	-	53,648	53,648
Equipment	-	36,010	36,010
Maintenance equipment	-	3,926	3,926
Swimming pool	-	226,920	226,920
Tennis courts	-	151,293	151,293
Less Accumulated Depreciation	-	(1,167,700)	(1,167,700)
Total fixed assets	-	302,404	302,404
TOTAL ASSETS	\$ 305,339	\$ 695,672	\$ 1,001,011
LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable	\$ 12,920	\$ -	\$ 12,920
Payroll liabilities	8,421	-	8,421
Due to Operating Fund	-	21,614	21,614
Unearned assessments	140,760	19,162	159,922
Total current liabilities	162,101	40,776	202,877
Board designated trash fund	1,595	-	1,595
Fund Balance	141,643	654,896	796,539
Total fund balance	143,238	654,896	798,134
TOTAL LIABILITIES AND FUND BALANCE	\$ 305,339	\$ 695,672	\$ 1,001,011

See accompanying notes to the financial statements and independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Statement of Revenues, Expenses and Changes in Fund Balances

For the year ended December 31, 2010

	Operating Fund	Capital Reserve Fund	(Memo only) Total
REVENUES			
Member assessments	\$ 428,790	\$ 81,714	\$ 510,504
Trash assessments	134,291	-	134,291
Rental and fee income	26,718	-	26,718
Advertising income	9,266	-	9,266
Other income	3,849	-	3,849
Interest income	1,397	11,105	12,502
Unrealized gain (loss) on investments	-	387	387
Realized gain (loss) on investments	-	(369)	(369)
TOTAL REVENUES	<u>604,311</u>	<u>92,837</u>	<u>697,148</u>
EXPENSES			
General and Administrative			
Salaries and wages	102,923	-	102,923
Depreciation	-	35,750	35,750
Payroll taxes	12,123	-	12,123
Employee benefits	4,718	-	4,718
Accounting and auditing	3,600	-	3,600
Bad debt	-	-	-
Director and meeting expense	4,079	-	4,079
Equipment expense	3,190	-	3,190
Bank service charges	-	160	160
Office expenses	5,001	-	5,001
Postage	2,086	-	2,086
Printing	545	-	545
Legal	545	-	545
Property taxes	1,916	-	1,916
Telephone	2,822	-	2,822
Miscellaneous	1,614	-	1,614
Landscape expenses			
Landscape contract	84,663	-	84,663
Repairs and maintenance	26,446	48,144	74,590
Snow removal	2,277	-	2,277
Supplies	2	-	2
Gas and electric	1,826	-	1,826
Water and sewer	51,760	-	51,760
Community			
Newsletter	5,697	-	5,697
Special events	5,355	-	5,355
Directory	-	-	-
Miscellaneous	254	-	254
Trash removal	139,226	-	139,226

See accompanying notes to the financial statements and independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.
Statement of Revenues, Expenses and Changes in Fund Balances (cont.)
For the year ended December 31, 2010

	Operating Fund	Capital Reserve Fund	(Memo only) Total
EXPENSES (cont.)			
Clubhouse			
Gas and electric	\$ 19,543	\$ -	\$ 19,543
Repairs and maintenance	7,030	17,848	24,878
Contract maintenance	3,850	-	3,850
Insurance	9,738	-	9,738
Supplies	568	-	568
Miscellaneous	550	-	550
Pool Expenses			
Contract management	65,125	-	65,125
Repairs and maintenance	2,751	13,022	15,773
Supplies	13,656	-	13,656
Insurance	1,800	-	1,800
Tennis and Recreation Areas			
League expenses	7,691	-	7,691
Repairs and maintenance	823	5,508	6,331
Fees	-	-	-
Supplies	-	-	-
TOTAL EXPENSES	<u>595,793</u>	<u>120,432</u>	<u>716,225</u>
Excess of revenues over (under) expenses	8,518	(27,595)	(19,077)
Beginning fund balances	134,720	682,491	817,211
Fund transfers	-	-	-
Ending Fund Balance	<u>\$ 143,238</u>	<u>\$ 654,896</u>	<u>\$ 798,134</u>

See accompanying notes to the financial statements and independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Statement of Cash Flows

For the year ended December 31, 2010

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>(Memo only) Total</u>
Cash flows from operating activities:			
Excess revenues over (under) expenses	\$ 8,518	\$ (27,595)	\$ (19,077)
Adjustments			
Depreciation	-	35,750	35,750
Change in prepaid expenses	758	-	758
Change in assessments receivable	(57)	-	(57)
Change in due to/due from	-	-	-
Change in accounts payable	509	-	509
Change in payroll liabilities	(948)	-	(948)
Change in unearned assessments	-	(5,065)	(5,065)
Net Cash Flow Provided (Used) by Operating Activities	8,780	3,090	11,870
Cash flows from financing activities:			
Transfers	-	-	-
Cash flows used in investing activities:			
Purchase of investments	(319)	(14,411)	(14,730)
Property and equipment additions	-	-	-
Net Cash Flows Provided (Used) by Investing Activities	(319)	(14,411)	(14,730)
Net increase (decrease) in cash	8,461	(11,321)	(2,860)
Cash at December 31, 2009	221,260	124,968	346,228
Cash at December 31, 2010	\$ 229,721	\$ 113,647	\$ 343,368
Supplemental Information:			
Cash paid for interest			\$ -
Cash paid for income taxes			\$ -

See accompanying notes to the financial statements and independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2010

Note 1 NATURE OF ORGANIZATION

The Governor's Ranch Homeowners Association, Inc. (the Association) is a statutory homeowners association organized as a non-profit corporation incorporated in the State of Colorado in April, 1979. The Association provides for the maintenance and preservation of the common area and certain designated public properties and promotes the health, safety and welfare of the residents within the property. The Association is comprised of 1,022 homes located in Jefferson County, Colorado.

Note 2 DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 1, 2011, the date that the financial statements were available to be issued.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

In accordance with generally accepted accounting principles (GAAP), the Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the capital reserve funds generally may be made for designated purposes.

Pervasiveness of Estimates

The preparation of financial statements to conformity with generally accepted principles requires management to make estimates and assumptions that affect the reported amounts 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.

Cash and Cash Equivalents

The Association considers all short-term investments with an original maturity of three months or less to be cash equivalent.

Member Assessment

Association members are subject to semi-annual assessments based on a flat rate per unit to provide funds for the Association's operating expenses, future capital acquisition, and major repairs and replacement. The Finance Committee recommends the annual budget and the assessment of owners and the Board of Directors approves the annual budget and assessment of owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners.

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2010

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Assets and Depreciation Policy

General common area property conveyed by the Declarant to the Association, except land, was recorded at the developer's cost. Land was recorded at market value at the date of donation. Assets acquired with Association funds are recorded at cost. Depreciation expenses on assets are recorded over the estimated useful life using the straight-line method. Expenditures for repairs and maintenance are charged against revenues as incurred. According to the Articles of Incorporation of the Association, two-thirds of all members must approve any dispositions of common real property. The common property consists of a club house, pool, tennis courts, landscaped areas, etc.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair market value. Investment returns include dividend, interest, and other investment income; realized and unrealized gains and losses.

Note 4 INCOME TAXES

The Association qualifies under Section 277 of the Internal Revenue Code. According to Internal Revenue Service (IRS) regulations, any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income and expenses unrelated to member assessments are offset to determine taxable income or net operating loss. Income will be taxed according to these IRS regulations. The Association has a net operating loss carryforward of \$66,131 at December 31, 2010. The net operating loss carry forward expires as follows:

Expiration Date	Amount
December 31, 2020	\$ 4,324
December 31, 2021	39,833
December 31, 2022	12,183
December 31, 2023	7,462
December 31, 2030	<u>2,329</u>
Total	<u>\$ 66,131</u>

Note 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Declaration of Covenants, Conditions, and Restrictions (the Declaration) requires the Association to maintain an adequate reserve fund from annual assessments for the maintenance, repair, and replacement of those elements of the common area that must be replaced on a periodic basis. Accumulated funds are held in separate investment accounts and are not available for expenditures for normal operations.

A formal study was conducted in 1994 by licensed engineers who inspected the property. In the following years the study has been reviewed and updated and since 2002 has undergone a yearly review and update by the Manager, Finance Committee and Board of Directors. The table included in the unaudited Supplemental Information on Future Major Repairs and Replacements is based on the study which is referred to in the documentation of the Association as the Engineering Study.

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2010

Note 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimate of current replacement costs and considering amounts previously accumulated in the Capital Reserve Fund. Funds are being accumulated based on estimates of future needs for repairs and replacements on common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the capital reserve fund may not be adequate to meet all future needs for major repairs and replacements. In the event that actual repair and replacement costs exceed available replacement funds, the Association has the authority to levy a special assessment with the assent of 60% of the votes of each class of the members voting in person or by proxy at a meeting called for that purpose.

Note 6 INVESTMENTS

Investments at December 31, 2010 are as follows:

	Fair Market Value	Cost
Certificates of Deposits	\$ 206,331	\$ 206,733
Mortgage Backed Securities	<u>111,071</u>	<u>113,454</u>
Total	<u>\$ 317,402</u>	<u>\$ 320,187</u>

Investment return including interest on cash accounts is comprised of the following:

Interest Income	\$ 12,502
Unrealized gain on investments reported at fair market value	387
Realized loss on investments	<u>(369)</u>
Total	<u>\$ 12,520</u>

Investments by fund are as follows:

Operating Fund	\$ 37,781
Capital Reserve Fund	<u>279,621</u>
Total	<u>\$ 317,402</u>

Note 7 OPERATING LEASES

The Association has two operating leases on equipment. The total leases payments made under the operating leases for the year ended December 31, 2010 was \$6,480. Future minimum lease payments under these two operating leases are as follows:

Year	Amount
2011	\$ 6,480
2012	<u>872</u>
Total	<u>\$ 7,352</u>

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2010

Note 8 GOVERNOR'S RANCH SWIM TEAM

The Association is affiliated with a non-profit organization called the Governor's Ranch Swim Team. The Association pays certain expenses for the Swim Team including payroll. The Swim Team reimburses the Association for these expenses. Total reimbursement for the year ended December 31, 2010 was \$7,718.

Note 9 FDIC INSURANCE LIMIT

The Association has maintained cash and certificate of deposits accounts in several Firstbanks throughout the metropolitan area in order to be FDIC insured on all of its accounts. During the year ended December 31, 2010, Firstbank changed how it was organized so that all Firstbanks are treated as one for FDIC insurance. At December 31, 2010, the Association had \$329,329 in Firstbanks with an FDIC insurance limit of \$250,000.

Note 10 RETIREMENT PLAN

The Association maintains a SIMPLE IRA plan which allows employees to make contributions up to \$11,500 for 2010. The Association matches up to 3% of the employee contribution each year. During the year ended December 31, 2010 three employees participated in the plan and the Association made a matching contribution totaling \$2,888.

See accompanying independent auditors' report

SUPPLEMENTAL INFORMATION

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Statement of Revenues and Expenses - Budget Versus Actual-

Operating Fund (non-GAAP)

For the year ended December 31, 2010

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Member assessments	\$ 428,790	\$ 428,790	\$ -
Trash assessments	134,291	134,291	-
Rental and fee income	27,275	26,718	(557)
Advertising income	9,500	9,266	(234)
Other income	1,783	3,849	2,066
Interest income	2,500	1,397	(1,103)
Unrealized gain on investments	-	-	-
Gain on sale of assets	-	-	-
TOTAL REVENUES	<u>604,139</u>	<u>604,311</u>	<u>172</u>
EXPENSES			
General and Administrative			
Salaries and wages	106,669	102,923	3,746
Depreciation	-	-	-
Payroll taxes	12,277	12,123	154
Employee benefits	4,929	4,718	211
Accounting and auditing	3,600	3,600	-
Bad debt	-	-	-
Director and meeting expense	4,550	4,079	471
Equipment expense	2,950	3,190	(240)
Bank service charges	-	-	-
Office expenses	5,237	5,001	236
Postage	2,000	2,086	(86)
Printing	1,000	545	455
Legal	2,500	545	1,955
Property taxes	1,750	1,916	(166)
Telephone	2,850	2,822	28
Miscellaneous	2,055	1,614	441
Landscape expenses			
Landscape contract	84,664	84,663	1
Repairs and maintenance	25,705	26,446	(741)
Snow removal	2,600	2,277	323
Supplies	300	2	298
Gas and electric	1,850	1,826	24
Water and sewer	54,312	51,760	2,552
Community			
Newsletter	6,700	5,697	1,003
Special Events	5,000	5,355	(355)
Directory	-	-	-
Miscellaneous	450	254	196
Trash removal	140,760	139,226	1,534

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNER'S ASSOCIATION, INC.

Statement of Revenues and Expenses - Budget Versus Actual-

Operating Fund (non-GAAP) (cont.)

For the year ended December 31, 2010

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENSES (cont.)			
Clubhouse			
Gas and electric	\$ 23,700	\$ 19,543	\$ 4,157
Repairs and maintenance	7,000	7,030	(30)
Contract maintenance	5,200	3,850	1,350
Insurance	10,500	9,738	762
Supplies	1,100	568	532
Miscellaneous	900	550	350
Pool Expenses			
Contract management	64,000	65,125	(1,125)
Repairs and maintenance	3,050	2,751	299
Supplies	10,300	13,656	(3,356)
Insurance	1,850	1,800	50
Tennis and Recreation Areas			
League expense	6,700	7,691	(991)
Repairs and maintenance	900	823	77
Fees	-	-	-
Supplies	700	-	700
	<u>610,608</u>	<u>595,793</u>	<u>14,815</u>
TOTAL EXPENSES			
	<u>610,608</u>	<u>595,793</u>	<u>14,815</u>
Excess of revenues over (under) expenses	<u>\$ (6,469)</u>	<u>\$ 8,518</u>	<u>\$ 14,987</u>

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.
 Supplemental Information on Future Major Repairs and Replacements (Unaudited)

For the year ended December 31, 2010

The Association's management conducted an informal study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs are reviewed and updated on an annual basis.

The following information is based on the study and presents significant information about the components of common property.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Clubhouse	\$ 36,396	\$ 42,550	\$ 6,450	\$ 2,500	\$ -
Swimming Pool	63,775	4,000	2,300	13,975	8,242
Tennis Courts	20,900	-	43,625	-	18,125
Asphalt/concrete	-	-	-	-	-
Pathways	-	3,500	-	-	3,500
Site drainage	9,000	-	-	-	-
Irrigation	46,500	-	-	57,000	-
Playground	-	-	21,500	-	-
Signage	-	-	-	-	-
Rock walls	2,500	-	-	-	-
Landscaping	2,000	1,000	-	3,500	2,000
Other	10,000	10,000	10,000	10,000	10,000
	<u>\$ 191,071</u>	<u>\$ 61,050</u>	<u>\$ 83,875</u>	<u>\$ 86,975</u>	<u>\$ 41,867</u>

See accompanying independent auditors' report.