

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard
Lakewood, Colorado 80227
303-988-5648 FAX: 303-988-5919
don@mcnurlincpa.com

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, 2008, 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, 2008, 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.

Lakewood, CO
January 29, 2009

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.

Balance Sheet
December 31, 2008

	Operating <u>Fund</u>	Capital Reserve <u>Fund</u>	(Memo only) <u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 178,665	\$ 79,477	\$ 258,142
Investments	54,728	321,135	375,863
Prepaid insurance	5,196	-	5,196
Due from Capital Reserve Fund	11,459	-	11,459
Deposits	-	-	-
Assessments receivable	12,430	-	12,430
Total current assets	<u>262,478</u>	<u>400,612</u>	<u>663,090</u>
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	-	(1,091,436)	(1,091,436)
Total fixed assets	<u>-</u>	<u>378,668</u>	<u>378,668</u>
 TOTAL ASSETS	 <u>\$ 262,478</u>	 <u>\$ 779,280</u>	 <u>\$ 1,041,758</u>
 LIABILITIES AND FUND BALANCE			
Current Liabilities			
Accounts payable	\$ 364	\$ -	\$ 364
Payroll liabilities	9,142	-	9,142
Due to Operating Fund	-	11,459	11,459
Prepaid dues	-	-	-
Unearned dues	140,361	24,227	164,588
Total current liabilities	<u>149,867</u>	<u>35,686</u>	<u>185,553</u>
Board designated trash fund	2,181	-	2,181
Fund Balance	110,430	743,594	854,024
Total fund balance	<u>112,611</u>	<u>743,594</u>	<u>856,205</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 262,478</u>	 <u>\$ 779,280</u>	 <u>\$ 1,041,758</u>

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, 2008

	Operating Fund	Capital Reserve Fund	(Memo only) Total
REVENUES			
Member assessment	\$ 431,213	\$ 92,203	\$ 523,416
Trash assessments	130,448	-	130,448
Rental and fee income	29,937	-	29,937
Advertising income	8,788	-	8,788
Other income	9,652	-	9,652
Interest income	4,567	16,779	21,346
Unrealized gain/loss on investments	-	(6,412)	(6,412)
Gain/loss on sale of assets	-	-	-
TOTAL REVENUES	614,605	102,570	717,175
EXPENSES			
General and Administrative			
Salaries and wages	99,046	-	99,046
Depreciation	-	41,719	41,719
Payroll taxes	9,103	-	9,103
Employee benefits	4,548	-	4,548
Accounting and auditing	4,450	-	4,450
Bad debt	-	-	-
Director and meeting expense	4,297	-	4,297
Equipment expense	1,418	-	1,418
Bank service charges	-	6	6
Office expenses	4,902	-	4,902
Postage	2,545	-	2,545
Printing	1,066	-	1,066
Legal	1,557	-	1,557
Property taxes	1,381	-	1,381
Telephone	3,771	-	3,771
Miscellaneous	1,612	-	1,612
Landscape expenses			
Landscape contract	78,588	-	78,588
Repairs and maintenance	25,381	13,415	38,796
Snow removal	1,474	-	1,474
Supplies	259	-	259
Gas and electric	1,520	-	1,520
Water and sewer	45,791	-	45,791
Replacement and additions	-	-	-
Community			
Newsletter	12,319	-	12,319
Special events	4,252	-	4,252
Directory	-	-	-
Miscellaneous	1,739	-	1,739
Trash removal	123,196	-	123,196
Trash fuel surcharge	-	-	-

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, 2008

	Operating Fund	Capital Reserve Fund	(Memo only) Total
EXPENSES (cont.)			
Clubhouse			
Gas and electric	\$ 30,091	\$ -	\$ 30,091
Repairs and maintenance	4,537	2,331	6,868
Contract maintenance	4,413	-	4,413
Insurance	9,701	-	9,701
Supplies	936	-	936
Miscellaneous	1,268	-	1,268
Renovations	-	-	-
Pool Expenses			
Contract management	57,548	-	57,548
Repairs and maintenance	4,899	2,845	7,744
Supplies	10,525	-	10,525
Insurance	1,794	-	1,794
Miscellaneous	-	-	-
Water and sewer	-	-	-
Tennis and Recreation Areas			
League expenses	6,626	-	6,626
Repairs and maintenance	1,146	550	1,696
Fees	-	-	-
Supplies	1,096	-	1,096
Miscellaneous	-	-	-
TOTAL EXPENSES	<u>568,795</u>	<u>60,866</u>	<u>629,661</u>
Excess of revenues over (under) expenses	45,810	41,704	87,514
Beginning fund balance	66,801	701,890	768,691
Fund transfers	-	-	-
Ending Fund Balance	<u>\$ 112,611</u>	<u>\$ 743,594</u>	<u>\$ 856,205</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, 2008

	<u>Operating</u> <u>Fund</u>	<u>Capital</u> <u>Reserve</u> <u>Fund</u>	<u>(Memo</u> <u>only)</u> <u>Total</u>
Cash flows from operating activities:			
Excess revenues over (under) expenses	\$ 45,810	\$ 41,704	\$ 87,514
Adjustments			
Depreciation	-	41,719	41,719
Change in prepaid insurance	1,157	-	1,157
Change in assessments receivable	(4,464)	-	(4,464)
Change in deposits	-	2,134	-
Change in due to/due from	7,408	(7,408)	-
Change in accounts payable	(6,668)	-	(6,668)
Change in payroll liabilities	4,938	-	4,938
Change in prepaid dues	(221)	-	(221)
Change in unearned dues	(215)	4,656	4,441
Net Cash Flow Provided (Used) by Operating Activities	<u>47,745</u>	<u>82,805</u>	<u>128,416</u>
Cash flows from financing activities:			
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows used in investing activities:			
Purchase of investments	(1,789)	(7,011)	(8,800)
Property and equipment additions	<u>-</u>	<u>(78,666)</u>	<u>(78,666)</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>(1,789)</u>	<u>(85,677)</u>	<u>(87,466)</u>
Net increase in cash	45,956	(2,872)	40,950
Cash at December 31, 2007	<u>132,709</u>	<u>82,349</u>	<u>215,058</u>
Cash at December 31, 2008	<u>\$ 178,665</u>	<u>\$ 79,477</u>	<u>\$ 256,008</u>
Supplemental Information:			
Cash paid for interest			<u>\$ -</u>
Cash paid for income taxes			<u>\$ -</u>

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

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2008

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 to promote 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 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.

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.

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2008

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 3 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 \$70,592 at December 31, 2008. The net operating loss carry forward expires as follows:

Expiration Date	Amount
December 31, 2020	\$ 11,114
December 31, 2021	39,833
December 31, 2022	12,183
December 31, 2023	<u>7,462</u>
Total	<u>\$ 70,592</u>

Note 4 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.

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.

See accompanying independent auditors' report

GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.
Notes to the Financial Statements
December 31, 2008

Note 5 INVESTMENTS

Investments at December 31, 2008, at fair market value are as follows:

Certificates of Deposits	\$ 222,313
Mortgage Backed Securities	<u>153,550</u>
	<u>\$ 375,863</u>

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

Interest Income	\$ 21,346
Unrealized loss on investments	
Reported at fair market value	<u>(6,412)</u>
	<u>\$ 14,934</u>

Note 6 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, 2008 was \$3,679. Future minimum lease payments under these two operating leases are as follows:

Year	Amount
2009	<u>\$ 1,337</u>
Total	<u>\$ 1,337</u>

Note 7 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, 2008 was \$9,333.

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, 2008

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Member assessment	\$ 431,212	\$ 431,213	\$ 1
Trash assessments	120,249	130,448	10,199
Rental and fee income	27,125	29,937	2,812
Advertising income	8,500	8,788	288
Other income	2,680	9,652	6,972
Interest income	6,500	4,567	(1,933)
Unrealized gain/loss on investments	-	-	-
Gain/loss on sale of assets	-	-	-
TOTAL REVENUES	<u>596,266</u>	<u>614,605</u>	<u>18,339</u>
EXPENSES			
General and Administrative			
Salaries and wages	110,942	99,046	11,896
Depreciation	-	-	-
Payroll taxes	17,825	9,103	8,722
Employee benefits	6,394	4,548	1,846
Accounting and auditing	2,850	4,450	(1,600)
Bad debt	-	-	-
Director and meeting expense	4,781	4,297	484
Equipment expense	2,149	1,418	731
Bank service charges	-	-	-
Office expenses	4,570	4,902	(332)
Postage	2,400	2,545	(145)
Printing	1,200	1,066	134
Legal	1,300	1,557	(257)
Property taxes	1,500	1,381	119
Telephone	3,780	3,771	9
Miscellaneous	1,210	1,612	(402)
Landscape expenses			
Landscape contract	79,000	78,588	412
Repairs and maintenance	24,981	25,381	(400)
Snow removal	2,500	1,474	1,026
Supplies	1,100	259	841
Gas and electric	1,400	1,520	(120)
Water and sewer	38,300	45,791	(7,491)
Replacement and additions	-	-	-
Community			
Newsletter	12,000	12,319	(319)
Special Events	5,800	4,252	1,548
Directory	-	-	-
Miscellaneous	2,550	1,739	811
Trash removal	127,559	123,196	4,363
Trash fuel surcharge	-	-	-

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, 2008

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
EXPENSES (cont.)			
Clubhouse			
Gas and electric	\$ 23,000	\$ 30,091	\$ (7,091)
Repairs and maintenance	13,200	4,537	8,663
Contract maintenance		4,413	(4,413)
Insurance	12,000	9,701	2,299
Supplies	1,100	936	164
Miscellaneous	1,180	1,268	(88)
Rennovations		-	-
Pool Expenses			
Contract management	64,000	57,548	6,452
Repairs and maintenance	3,200	4,899	(1,699)
Supplies	11,650	10,525	1,125
Insurance	1,850	1,794	56
Miscellaneous		-	-
Water and sewer		-	-
Tennis and Recreation Areas			
League expense	11,200	6,626	4,574
Repairs and maintenance	750	1,146	(396)
Fees		-	-
Supplies	700	1,096	(396)
Miscellaneous	-	-	-
TOTAL EXPENSES	599,921	568,795	31,126
 Excess of revenues over expenses	 <u>\$ (3,655)</u>	 <u>\$ 45,810</u>	 <u>\$ 49,465</u>

See accompanying independent auditors' report

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

For the year ended December 31, 2008

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 every year.

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

	2009	2010	2011	2012	2013
Clubhouse	\$ 5,600	\$ 42,391	\$ 5,595	\$ 42,550	\$ 17,755
Swimming Pool	70,000	47,117	21,500	4,000	2,975
Tennis Courts	1,625	-	22,525	-	43,625
Asphalt/concrete	-	-	-	-	-
Pathways	3,500	-	-	3,500	-
Site drainage	-	-	9,000	-	-
Irrigation	-	-	46,500	-	-
Playground	-	-	-	-	21,500
Signage	-	-	-	-	-
Rock walls	18,900	-	2,500	-	-
Landscaping	10,000	10,000	10,000	11,000	10,000
Other	\$ 109,625	\$ 99,508	\$ 119,620	\$ 61,050	\$ 95,855

See accompanying independent auditors' report