

**GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

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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, 2009, 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, 2009, 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  
January 30, 2010

**GOVERNOR'S RANCH HOMEOWNERS ASSOCIATION, INC.**

Balance Sheet  
December 31, 2009

	Operating Fund	Capital Reserve Fund	(Memo only) Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 221,260	\$ 124,968	\$ 346,228
Investments	37,462	265,210	302,672
Prepaid expenses	6,025	-	6,025
Due from Capital Reserve Fund	21,614	-	21,614
Assessments receivable	10,899	-	10,899
Total current assets	<u>297,260</u>	<u>390,178</u>	<u>687,438</u>
<b>Fixed Assets</b>			
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	-	<u>(1,131,950)</u>	<u>(1,131,950)</u>
Total fixed assets	<u>-</u>	<u>338,154</u>	<u>338,154</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 297,260</u></u>	<u><u>\$ 728,332</u></u>	<u><u>\$ 1,025,592</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 12,411	\$ -	\$ 12,411
Payroll liabilities	9,369	-	9,369
Due to Operating Fund	-	21,614	21,614
Unearned assessments	140,760	24,227	164,987
Total current liabilities	<u>162,540</u>	<u>45,841</u>	<u>208,381</u>
Board designated trash fund	6,530	-	6,530
Fund Balance	128,190	682,491	810,681
Total fund balance	<u>134,720</u>	<u>682,491</u>	<u>817,211</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 297,260</u></u>	<u><u>\$ 728,332</u></u>	<u><u>\$ 1,025,592</u></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, 2009

	Operating Fund	Capital Reserve Fund	(Memo only) Total
<b>REVENUES</b>			
Member assessments	\$ 429,123	\$ 96,906	\$ 526,029
Trash assessments	133,882	-	133,882
Rental and fee income	30,996	-	30,996
Advertising income	10,193	-	10,193
Other income	5,286	-	5,286
Interest income	2,397	14,292	16,689
Unrealized gain on investments	-	13,195	13,195
Gain on sale of assets	-	7	7
<b>TOTAL REVENUES</b>	<u>611,877</u>	<u>124,400</u>	<u>736,277</u>
<b>EXPENSES</b>			
General and Administrative			
Salaries and wages	101,209	-	101,209
Depreciation	-	40,514	40,514
Payroll taxes	11,451	-	11,451
Employee benefits	4,330	-	4,330
Accounting and auditing	3,350	-	3,350
Bad debt	-	-	-
Director and meeting expense	4,355	-	4,355
Equipment expense	3,432	1,758	5,190
Bank service charges	-	22	22
Office expenses	3,053	-	3,053
Postage	6,330	-	6,330
Printing	1,440	-	1,440
Legal	2,061	-	2,061
Property taxes	1,943	-	1,943
Telephone	4,059	-	4,059
Miscellaneous	2,307	-	2,307
Landscape expenses			
Landscape contract	84,663	-	84,663
Repairs and maintenance	36,961	74,298	111,259
Snow removal	2,633	-	2,633
Supplies	87	-	87
Gas and electric	1,834	-	1,834
Water and sewer	44,413	-	44,413
Community			
Newsletter	7,203	-	7,203
Special events	4,809	-	4,809
Directory	2,060	-	2,060
Miscellaneous	2,286	-	2,286
Trash removal	129,533	-	129,533

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, 2009

	Operating <u>Fund</u>	Capital Reserve <u>Fund</u>	(Memo only) <u>Total</u>
<b>EXPENSES (cont.)</b>			
Clubhouse			
Gas and electric	\$ 19,238	\$ -	\$ 19,238
Repairs and maintenance	4,234	4,040	8,274
Contract maintenance	4,302	-	4,302
Insurance	9,745	-	9,745
Supplies	360	-	360
Miscellaneous	1,318	-	1,318
Pool Expenses			
Contract management	60,010	-	60,010
Repairs and maintenance	3,548	64,248	67,796
Supplies	8,718	-	8,718
Insurance	1,800	-	1,800
Tennis and Recreation Areas			
League expenses	7,282	-	7,282
Repairs and maintenance	3,159	623	3,782
Fees	-	-	-
Supplies	252	-	252
<b>TOTAL EXPENSES</b>	<b>589,768</b>	<b>185,503</b>	<b>775,271</b>
 Excess of revenues over (under) expenses	 22,109	 (61,103)	 (38,994)
Beginning fund balances	112,611	743,594	856,205
Fund transfers	-	-	-
 Ending Fund Balance	 <b>\$ 134,720</b>	 <b>\$ 682,491</b>	 <b>\$ 817,211</b>

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, 2009

	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>	<u>(Memo only) Total</u>
Cash flows from operating activities:			
Excess revenues over (under) expenses	\$ 22,109	\$ (61,103)	\$ (38,994)
Adjustments			
Depreciation	-	40,514	40,514
Change in prepaid expenses	(829)	-	(829)
Change in assessments receivable	1,531	-	1,531
Change in due to/due from	(10,155)	10,155	-
Change in accounts payable	12,047	-	12,047
Change in payroll liabilities	227	-	227
Change in unearned assessments	399	-	399
Net Cash Flow Provided (Used) by Operating Activities	<u>25,329</u>	<u>(10,434)</u>	<u>14,895</u>
Cash flows from financing activities:			
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows used in investing activities:			
Purchase of investments	17,266	55,925	73,191
Property and equipment additions	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>17,266</u>	<u>55,925</u>	<u>73,191</u>
Net increase in cash	42,595	45,491	88,086
Cash at December 31, 2008	178,665	79,477	258,142
Cash at December 31, 2009	<u>\$ 221,260</u>	<u>\$ 124,968</u>	<u>\$ 346,228</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, 2009

## 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, 2009

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$63,802 at December 31, 2009. 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	<u>7,462</u>
Total	<u>\$ 63,802</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, 2009

**Note 5 INVESTMENTS**

Investments at December 31, 2009, at fair market value are as follows:

Certificates of Deposits	\$ 124,331
Mortgage Backed Securities	<u>178,341</u>
Total	<u>\$ 302,672</u>

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

Interest Income	\$ 16,689
Unrealized gain on investments	
Reported at fair market value	13,195
Realized gain on investments	<u>7</u>
Total	<u>\$ 29,891</u>

Investments by fund are as follows:

Operating Fund	\$ 37,462
Capital Reserve Fund	<u>265,210</u>
Total	<u>\$302,672</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, 2009 was \$5,608. Future minimum lease payments under these two operating leases are as follows:

Year	Amount
2010	\$ 6,480
2011	6,480
2012	<u>872</u>
Total	<u>\$13,832</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, 2009 was \$10,696.

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, 2009

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
<b>REVENUES</b>			
Member assessments	\$ 428,790	\$ 429,123	\$ 333
Trash assessments	135,108	133,882	(1,226)
Rental and fee income	24,075	30,996	6,921
Advertising income	9,350	10,193	843
Other income	1,980	5,286	3,306
Interest income	5,100	2,397	(2,703)
Unrealized gain on investments	-	-	-
Gain on sale of assets	-	-	-
<b>TOTAL REVENUES</b>	<b>604,403</b>	<b>611,877</b>	<b>7,474</b>
<b>EXPENSES</b>			
<b>General and Administrative</b>			
Salaries and wages	94,420	101,209	(6,789)
Depreciation	-	-	-
Payroll taxes	12,770	11,451	1,319
Employee benefits	5,064	4,330	734
Accounting and auditing	3,500	3,350	150
Bad debt	-	-	-
Director and meeting expense	4,250	4,355	(105)
Equipment expense	3,220	3,432	(212)
Bank service charges	-	-	-
Office expenses	2,380	3,053	(673)
Postage	6,350	6,330	20
Printing	1,200	1,440	(240)
Legal	2,000	2,061	(61)
Property taxes	1,635	1,943	(308)
Telephone	3,780	4,059	(279)
Miscellaneous	2,725	2,307	418
<b>Landscape expenses</b>			
Landscape contract	84,664	84,663	1
Repairs and maintenance	21,000	36,961	(15,961)
Snow removal	2,600	2,633	(33)
Supplies	300	87	213
Gas and electric	1,600	1,834	(234)
Water and sewer	55,495	44,413	11,082
<b>Community</b>			
Newsletter	7,300	7,203	97
Special Events	5,700	4,809	891
Directory	1,700	2,060	(360)
Miscellaneous	2,450	2,286	164
Trash removal	134,904	129,533	5,371

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, 2009

	<u>Unaudited</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
EXPENSES (cont.)			
Clubhouse			
Gas and electric	\$ 32,000	\$ 19,238	\$ 12,762
Repairs and maintenance	8,000	4,234	3,766
Contract maintenance	5,800	4,302	1,498
Insurance	10,925	9,745	1,180
Supplies	1,100	360	740
Miscellaneous	1,480	1,318	162
Pool Expenses			
Contract management	62,000	60,010	1,990
Repairs and maintenance	2,725	3,548	(823)
Supplies	11,400	8,718	2,682
Insurance	1,850	1,800	50
Tennis and Recreation Areas			
League expense	9,000	7,282	1,718
Repairs and maintenance	750	3,159	(2,409)
Fees	-	-	-
Supplies	700	252	448
	<u>608,737</u>	<u>589,768</u>	<u>18,969</u>
Excess of revenues over (under) expenses	<u>\$ (4,334)</u>	<u>\$ 22,109</u>	<u>\$ 26,443</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, 2009

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Clubhouse	\$ 32,733	\$ 37,791	\$ 42,550	\$ 6,450	\$ 2,500
Swimming Pool	14,575	63,775	4,000	2,300	13,975
Tennis Courts	5,500	22,525	-	43,625	-
Asphalt/concrete	-	-	-	-	-
Pathways	-	-	3,500	-	-
Site drainage	-	9,000	-	-	-
Irrigation	-	46,500	-	-	57,000
Playground	-	-	-	21,500	-
Signage	-	-	-	-	-
Rock walls	-	2,500	-	-	-
Landscaping	32,150	2,000	-	-	3,500
Other	-	10,000	11,000	10,000	10,000
	<u>\$ 84,958</u>	<u>\$ 194,091</u>	<u>\$ 61,050</u>	<u>\$ 83,875</u>	<u>\$ 86,975</u>

See accompanying independent auditors' report.