

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2010

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
Southpark Homeowners Association Number 2, Inc.

I have audited the accompanying balance sheets of Southpark Homeowners Association Number 2, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southpark Homeowners Association Number 2, Inc. as of 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.

The supplementary information on future major repairs and replacements included in this report is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.

*Michele M. Giometti*

Michele M. Giometti, CPA  
Lakewood, Colorado  
May 26, 2011

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
BALANCE SHEETS  
DECEMBER 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note 2)	\$ 65,562	\$ 287,019	\$ 352,580
Cash on deposit - water escrow	4,513		4,513
Certificates of deposit (Note 6)		263,000	263,000
Accounts receivable, net of allowance for doubtful accounts of \$2,000 (Note 3)	6,363		6,363
Prepaid expenses	2,796		2,796
Prepaid taxes	1,643		1,643
Accrued interest receivable		966	966
Interfund receivable		89,236	89,236
Furniture and equipment, net of accumulated depreciation of \$22,539 (Note 2)	<u>1,570</u>		<u>1,570</u>
<u>TOTAL ASSETS</u>	<u>\$ 82,447</u>	<u>\$ 640,221</u>	<u>\$ 722,668</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 14,682	\$ 366	\$ 15,048
Prepaid assessments	46,196		46,196
Taxes payable	115		115
Interfund payable	<u>89,236</u>		<u>89,236</u>
Total liabilities	150,229	366	150,595
<u>FUND BALANCES</u>			
Restricted	4,513	639,854	644,367
Unrestricted (deficit)	<u>(72,295)</u>		<u>(72,295)</u>
Total fund balance (deficit)	<u>(67,782)</u>	<u>639,854</u>	<u>572,072</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 82,447</u>	<u>\$ 640,221</u>	<u>\$ 722,668</u>

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
STATEMENTS OF REVENUES AND EXPENSES  
AND CHANGES IN FUND BALANCES  
FOR THE YEARS ENDED DECEMBER 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member assessments (Note 3)	\$ 578,688	\$ 118,368	\$ 697,056
Late fees and other member charges	7,775		7,775
Fines and violations	225		225
Recovery of bad debt	3,598		3,598
Clubhouse rental	1,680		1,680
Interest	15	5,961	5,976
Total Revenues	<u>591,981</u>	<u>124,329</u>	<u>716,310</u>
 <u>EXPENSES</u>			
Water and sewer	180,961		180,961
Grounds maintenance	157,593		157,593
Trash removal	52,660		52,660
Pool, clubhouse and tennis courts	48,907		48,907
Snow removal	38,925		38,925
Management fees	31,057		31,057
Bookkeeping expense	19,728		19,728
Security services	12,840		12,840
Insurance	12,240		12,240
Administrative	8,453	150	8,603
Gas and electric	8,012		8,012
Lighting maintenance	4,484		4,484
Audit and tax preparation	2,587		2,587
Legal and collection - net	1,169		1,169
Depreciation	939		939
Income tax expense (Note 5)	471		471
Replacement fund expenses:			
Trees and mulch beds		44,653	44,653
Pool, clubhouse and tennis courts		43,502	43,502
Grounds and landscape improvements		17,697	17,697
Asphalt and concrete		15,273	15,273
Lighting		5,561	5,561
Total Expenses	<u>581,026</u>	<u>126,836</u>	<u>707,862</u>
Excess of Revenues over Expenses or (Expenses over Revenues)	10,955	(2,507)	8,448
Beginning Fund Balance (Deficit)	(83,246)	642,361	559,115
Change in Fund Balance - water escrow	<u>(4)</u>		<u>(4)</u>
Ending Fund Balances	<u>\$ (72,295)</u>	<u>\$ 639,854</u>	<u>\$ 567,559</u>

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010

	Operating Fund	Replacement Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess / (Deficit ) of revenues over expenses	\$ 10,955	\$ (2,507)	\$ 8,448
(Increase) decrease in:			
Accounts receivable	(3,666)		(3,666)
Prepaid expenses	(648)		(648)
Prepaid taxes	(144)		(144)
Interfund receivable		49	49
Increase (decrease) in:			
Accounts payable	(10,774)	167	(10,607)
Prepaid assessments	8,500		8,500
Income tax payable	115		115
Deferred insurance claim proceeds	(1,735)		(1,735)
Interfund payable	(49)		(49)
Net Cash Provided (Used) by Operating Activities	2,554	(2,291)	263
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Maturity / (purchase) of certificates of deposit		235,000	235,000
Accrued interest receivable		864	864
Non-cash depreciation expense	939		939
Net Cash Provided (Used) by Investing Activities	939	235,864	236,803
NET INCREASE (DECREASE) IN CASH	3,493	233,573	237,066
CASH AT BEGINNING OF YEAR	66,582	53,445	120,027
CASH AT END OF YEAR	\$ 70,075	\$ 287,019	\$ 357,093

Supplemental information of cash flow information:

Cash paid during the year for:

Interest expense	\$ 0	\$ 0	\$ 0
Income taxes	\$ 3,263	\$ 0	\$ 3,263

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

NOTE 1. NATURE OF ORGANIZATION

Southpark Homeowners Association Number 2, Inc. (the Association), a nonprofit corporation organized under the laws of Colorado on July 20, 1982, was formed to manage, maintain and preserve the common area property on behalf of the members of the Association. The development consists of 548 homes, and is located in Arapaho County, Colorado. The Association is responsible for the maintenance and preservation of the common area, which includes a pool and clubhouse, grounds and improvements, and fencing. It is also responsible for providing snow and trash removal, and insurance for the common areas.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING.** The Association uses the accrual method of accounting for both financial statement and income tax return purposes.

**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:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

**CASH AND CASH EQUIVALENTS.** The association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**INTEREST INCOME.** Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

**RECOGNITION OF ASSETS AND DEPRECIATION POLICY.** Real and personal common property acquired by the original unit owners from the developer, as well as replacements and improvements thereto, is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association's Board is restricted. Replacements and improvements to common property are not recognized as assets because their disposition is restricted. At December 31, 2010, property not capitalized consists of sidewalks, access roads, and greenbelts.

Capitalized common property is depreciated over an estimated 7-year useful life using an accelerated method of depreciation.

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting 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.

NOTE 3. OWNERS' ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Owner's assessments are determined by an annual budget approved by the board to meet operating costs and contribute to the replacement fund. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years.

For the year ended December 31, 2010, monthly assessments to owners were \$106.

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, which aggregated \$550,019 at December 31, 2010, are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Association's management conducted a study in April, 2009, to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were based on the then current replacement costs, including adjustment for future inflation and interest earned on investments. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

In 2010, \$118,368 was transferred to reserves.

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2010

NOTE 5. FEDERAL AND STATE CORPORATE INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2010, the Association was taxed as a regular corporation and filed Form 1120. 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. The Association had taxable income for the year ended December 31, 2010 resulting in Federal taxes of \$356 and state taxes of \$115.

NOTE 6. CERTIFICATES OF DEPOSIT

The Association has investment accounts with Morgan Stanley Smith Barney and RBC Wealth Management. The investments are carried at fair market value. As of December 31, 2010, the Association had the following certificates of deposit with a maturity date greater than three months:

<u>Description</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>	<u>Original Cost</u>	<u>Fair Market Value</u>
Bank of Baroda – NY	0.550%	5/26/11	\$ 63,000	\$ 63,000
Cole Taylor Bank – IL	1.350%	6/29/11	100,000	100,000
RBC Wealth Management	0.950%	10/29/11	<u>100,000</u>	<u>100,000</u>
Totals			<u>\$ 263,000</u>	<u>\$ 263,000</u>

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
 REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2010  
 Unaudited

The Association's Board of Directors conducted a study in March 2009 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current replacement costs, with adjustments for future inflation of 5.0% and interest earned, net of tax, of 3.6%.

The following information is based on the study and presents significant information about the components of common property. The following information has not been updated for work in process or completed. See the reserve study for additional detail regarding the timing and frequency of the repairs and replacements for the various elements of the study.

<u>Components</u>	<u>Useful Life</u> <u>(Years)</u>	<u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>Estimated</u> <u>Future Cost</u>
Paving	1-10	0-8	\$ 310,794
Concrete	3-5	0-1	41,200
Landscaping and appurtenances	1-5	0-6	402,861
Façade	1-5	0-8	25,200
Roofing		10	6,100
Amenities	2-12	0-11	92,610
Clubhouse interior	1-15	1-12	39,365
Mechanical systems	1-10	0-5	48,700
Total			<u>\$ 966,830</u>