

**STETSON HILLS MASTER  
HOMEOWNERS ASSOCIATION, INC.**

**Financial Statements**

**For the Period Ended August 31, 2009**

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Stetson Hills Master  
Homeowners Association, Inc.  
Colorado Springs, Colorado

We have audited the accompanying balance sheet of Stetson Hills Master Homeowners Association, Inc. as of August 31, 2009 and the related statements of revenue, expenses, and changes in fund balances, and cash flows for the period 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 Stetson Hills Master Homeowners Association, Inc. as of August 31, 2009 and the results of its operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The information included in the accompanying supplementary schedule is not a required part of the basic financial statements of Stetson Hills Master Homeowners Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. 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.

*Waugh & Goodwin, LLC*  
November 1, 2009

STETSON HILLS MASTER HOMEOWNERS ASSOCIATION, INC.

Balance Sheet

August 31, 2009

ASSETS

|                           | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Reserve<br/>Fund</u> | <u>Total</u>      |
|---------------------------|---------------------------|---|-------------------|
| CURRENT ASSETS:           |                           |   |                   |
| Cash and cash equivalents | \$ 125,627                | \$ 93,842                               | \$ 219,469        |
| Assessments receivable    | 81,357                    |   | 81,357            |
| Prepaid insurance         | <u>933</u>                |   | <u>933</u>        |
| TOTAL ASSETS              | <u>\$ 207,917</u>         | <u>\$ 93,842</u>                        | <u>\$ 301,759</u> |

LIABILITIES AND FUND BALANCES

|  |                   |                  |                   |
|--|-------------------|------------------|-------------------|
| CURRENT LIABILITIES:                   |                   |                  |                   |
| Accounts payable                       | \$ 50,287         | \$               | \$ 50,287         |
| Assessments received in<br>advance     | <u>64,982</u>     |                  | <u>64,982</u>     |
| Total current liabilities              | 115,269           |                  | 115,269           |
| FUND BALANCES                          | <u>92,648</u>     | <u>93,842</u>    | <u>186,490</u>    |
| TOTAL LIABILITIES AND<br>FUND BALANCES | <u>\$ 207,917</u> | <u>\$ 93,842</u> | <u>\$ 301,759</u> |

See Notes to Financial Statements

STETSON HILLS MASTER HOMEOWNERS ASSOCIATION, INC.  
Statement of Revenue, Expenses, and Changes in Fund Balances  
For the Period Ended August 31, 2009

|  | Operating<br>Fund | Replacement<br>Reserve<br>Fund | Total      |
|--|-------------------|--------------------------------|------------|
| REVENUE:                                 |                   |                                |            |
| Homeowner assessments                    | \$ 260,474        | \$                             | \$ 260,474 |
| Late fees                                | 29,473            |                                | 29,473     |
| Fines and other fees                     | 20,920            |                                | 20,920     |
| Interest income                          | 749               | 974                            | 1,723      |
| Miscellaneous income                     | 426               |                                | 426        |
| Total revenue                            | 312,042           | 974                            | 313,016    |
| EXPENSES:                                |                   |                                |            |
| Management fees                          | 93,653            |                                | 93,653     |
| Water/sewer                              | 70,178            |                                | 70,178     |
| Landscape maintenance                    | 38,560            |                                | 38,560     |
| Bad debt expense                         | 20,439            |                                | 20,439     |
| Administrative fees                      | 17,121            |                                | 17,121     |
| Legal                                    | 9,052             |                                | 9,052      |
| Trash removal                            | 8,484             |                                | 8,484      |
| Newsletter/mailings                      | 6,475             |                                | 6,475      |
| Sprinkler repairs                        | 6,190             |                                | 6,190      |
| Insurance                                | 6,144             |                                | 6,144      |
| Infraction reporting                     | 2,602             |                                | 2,602      |
| Bank fees                                | 1,972             |                                | 1,972      |
| Electricity                              | 1,917             |                                | 1,917      |
| Miscellaneous repairs and<br>maintenance | 1,748             |                                | 1,748      |
| Snow removal                             | 1,359             |                                | 1,359      |
| Property tax                             | 687               |                                | 687        |
| Fence repair/stain                       | 580               |                                | 580        |
| Accounting                               | 310               |                                | 310        |
| Meeting expense                          | 28                |                                | 28         |
| Dues and subscriptions                   | 20                |                                | 20         |
| Total expenses                           | 287,519           |                                | 287,519    |
| EXCESS OF REVENUE OVER EXPENSES          | 24,523            | 974                            | 25,497     |
| FUND BALANCES, beginning of year         | 73,253            | 87,740                         | 160,993    |
| TRANSFERS BETWEEN FUNDS                  | (5,128)           | 5,128                          |            |
| FUND BALANCES, end of year               | \$ 92,648         | \$ 93,842                      | \$ 186,490 |

See Notes to Financial Statements

STETSON HILLS MASTER HOMEOWNERS ASSOCIATION, INC.  
Statement of Cash Flows  
For the Period Ended August 31, 2009

|  | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Reserve<br/>Fund</u> | <u>Total</u>      |
|--|---------------------------|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:  |                           |   |                   |
| Excess of revenue over expenses  | \$ 24,523                 | \$ 974                                  | \$ 25,497         |
| Adjustments to reconcile excess of<br>revenue over expenses to<br>net cash provided (used) by<br>operating activities: |                           |   |                   |
| Changes in assets and liabilities:   |                           |   |                   |
| Increase in assessments<br>receivable  | (13,672)                  |   | (13,672)          |
| Decrease in prepaid insurance  | 1,192                     |   | 1,192             |
| Increase in accounts payable   | 30,115                    |   | 30,115            |
| Increase in assessments<br>received in advance   | <u>5,951</u>              |   | <u>5,951</u>      |
| Total adjustments  | <u>23,586</u>             |   | <u>23,586</u>     |
| Net cash provided by<br>operating activities   | 48,109                    | 974                                     | 49,083            |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |                           |   |                   |
| Transfers between funds  | <u>(5,128)</u>            | <u>5,128</u>                            |                   |
| Net cash provided by<br>financing activities   | <u>(5,128)</u>            | <u>5,128</u>                            |                   |
| NET INCREASE IN CASH   | 42,981                    | 6,102                                   | 49,083            |
| CASH AND CASH EQUIVALENTS,<br>beginning of year  | <u>82,646</u>             | <u>87,740</u>                           | <u>170,386</u>    |
| CASH AND CASH EQUIVALENTS,<br>end of year  | <u>\$ 125,627</u>         | <u>\$ 93,842</u>                        | <u>\$ 219,469</u> |

See Notes to Financial Statements

STETSON HILLS MASTER HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements

For the Period Ended August 31, 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Association was incorporated on September 21, 1999 as a Colorado nonprofit corporation to maintain, improve and enhance Association properties, and to improve and enhance the attractiveness, desirability and safety of the Community Area, pursuant to the Declaration of Covenants, Conditions, Restrictions and Easements of Stetson Hills Master Homeowners Association, Inc. The Association consists of 3,258 lots located in Colorado Springs, Colorado.

The Association's fiscal year ends December 31.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting. Financial resources are classified for accounting purposes into two funds. The operating fund is used to account for the general operations of the Association. The replacement reserve fund is used to accumulate monies designated for future major repairs and replacements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Income Tax

Pursuant to the 1976 Tax Reform Act, condominium management and residential real estate management associations may elect to be treated as tax-exempt "homeowners associations", generally taxed only on income from investments and business with non-members.

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's checking and money market accounts.

#### Assessments Receivable

Assessments receivable are stated at the amount the Association expects to collect from balances outstanding at period-end. Based on the Association's experience with owners having outstanding balances, as of August 31, 2009, the Association has recorded an allowance for doubtful accounts of \$35,000.

#### Supplemental Cash Flow Disclosures

Cash flows from operating activities include income taxes paid of \$0.

#### Property

The Association does not capitalize real property directly associated with the units. The value of common areas is not reflected on the financial statements, since title to common areas is vested with homeowners on an individual basis. According to the Association's governing documents, the common property shall remain undivided and not subject to partition.

### B. REPLACEMENT RESERVE FUNDS

Article 11, Section 11.3(i) of the Declaration states that the annual assessment set by the Board of Directors shall include amounts for the creation of reasonable reserves for the repair, replacement and maintenance of those common elements that must be replaced periodically.

The Association has allocated amounts from owners' monthly maintenance assessments to the replacement reserve fund. The replacement reserve funds have been segregated from the Association's operating fund.

### C. FUTURE REPAIRS AND REPLACEMENTS

An independent firm prepared an analysis in November 2004 to estimate the remaining useful lives and the replacement costs of the common property components. The table shown in the unaudited supplementary information on future major repairs and replacements is based on this analysis.

Notes to Financial Statements

C. FUTURE REPAIRS AND REPLACEMENTS - Continued

The Association is accumulating funds to meet the costs of major repairs and replacements. Actual expenditures may vary from estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement reserve 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, subject to membership approval, to increase regular assessments or pass special assessments.

D. WORKING CAPITAL CONTRIBUTIONS

Article 11, Section 11.6(d) of the Declaration states that at the first closing of the purchase of each lot after a house has been constructed on that lot, the purchaser shall pay to the Association a non-refundable contribution for a working capital fund in an amount of \$100. Said contributions shall be maintained in a segregated account with other such working capital funds for the use and benefit of the Association, including without limitation, to meet unforeseen expenditures or to purchase additional equipment, property or services.

During the period ended August 31, 2009, working capital contributions amounted to \$0.

STETSON HILLS MASTER HOMEOWNERS ASSOCIATION, INC.

Supplementary Information on Future  
Major Repairs and Replacements

August 31, 2009

(Unaudited)

The Association engaged an independent firm to conduct a study in November 2004 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were determined by physical inspection of the property components. Replacement costs were based on the estimated future costs, assuming a 3% inflation rate, to repair or replace the common property components. Actual expenditures may vary from estimated future expenditures, and the variations may be material. Therefore, amounts accumulated may not be adequate to meet all future needs for major repairs and replacements.

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

| <u>Asset</u>          | <u>Estimated<br/>Remaining<br/>Life</u> | <u>Estimated<br/>Replacement<br/>Costs</u> | <u>Reserve<br/>Balance at<br/>08/31/09</u> |
|-----------------------|---|--|--|
| Brick columns         | 4                                       | \$ 24,241                                  | \$   |
| Sign lights           | 14                                      | 7,865                                      |  |
| Picnic tables         | 14                                      | 945  |  |
| Block wall            | 5                                       | 6,376                                      |  |
| Wood fence            | 19-23                                   | 603,370                                    |  |
| Irrigation timeclocks | 3                                       | 1,038                                      |  |
| Vinyl fence           | 28                                      | 17,159                                     |  |
| Monument signs        | 5-8                                     | 6,274                                      |  |
| Deciduous trees       | 3                                       | 12,075                                     |  |
| Evergreen trees       | 1                                       | 19,467                                     |  |
| Unallocated           |   |  | 93,842                                     |
| TOTALS                |   | <u>\$ 698,810</u>                          | <u>\$ 93,842</u>                           |