
Ventana Lakes Property Owners Association

**Financial Statements
December 31, 2008**

Table of Contents

Independent Auditor's Report	1
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to the Financial Statements	5
Supplemental data - Information from Reserve Study	9

5311 East Evans Drive
Scottsdale, AZ 85254
Phone (602) 996-5426

Independent Auditor's Report

Ventana Lakes Property Owners Association
Peoria, Arizona

I have audited the accompanying balance sheets of the Ventana Lakes Property Owners Association, as of December 31, 2008, and the related statements of revenues and expenses and changes in fund balances and statements of cash flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements, based on my audit.

I conducted my 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 used 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 Ventana Lakes Property Owners Association as of December 31, 2008, and the results of its operations, its cash flows and functional expenses 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 on page 9 is not a required part of the basic financial statements of Ventana Lakes Property Owners Association 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 inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

August 25, 2009

Ventana Lakes Property Owners Association

Balance Sheets December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Funds</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$110,592	\$335,026	\$445,618
Assessments receivable, net of allowance for doubtful accounts	10,062		10,062
Investments		1,175,667	1,175,667
Prepaid income tax	8,461		8,461
Due from operating		8,001	8,001
Fixed assets, net of accumulated depreciation	<u>204,738</u>	<u> </u>	<u>204,738</u>
Total Assets	<u>\$333,853</u>	<u>\$1,518,694</u>	<u>\$1,852,547</u>
Liabilities and Fund Balances			
Accounts payable	\$27,350		\$27,350
Due to reserve	8,001		8,001
Accrued payroll & related taxes	5,346		5,346
Key deposits	42,297		42,297
Prepaid assessments	<u>190,685</u>		<u>190,685</u>
Total Liabilities	273,679		273,679
Fund Balances			
Fund Balances	<u>60,174</u>	<u>1,518,694</u>	<u>1,578,868</u>
Total Liabilities and Fund Balances	<u>\$333,853</u>	<u>\$1,518,694</u>	<u>\$1,852,547</u>

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

Ventana Lakes Property Owners Association

Statements of Revenues, Expenses and Changes in Fund Balances For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Funds</u>	<u>Total</u>
Revenues			
Member assessments and fees	\$1,399,372		\$1,399,372
Activity fees	26,112		26,112
Other	28,271		28,271
Interest and dividends		\$47,096	47,096
Loss on disposal of assets	<u>(2,611)</u>	<u> </u>	<u>(2,611)</u>
	1,451,144	47,096	1,498,240
Expenses			
Wages and benefits	167,934		167,934
Administration	70,877	2,170	73,047
Common area landscape and maintenance	497,403		497,403
Replacement and reconstruction		99,329	99,329
Taxes, other than income tax	399		399
Utilities	431,695		431,695
Activities	28,137		28,137
Insurance	44,007		44,007
Legal	22,530		22,530
Building maintenance	115,681		115,681
Operating lease	14,383		14,383
Bad debt expense	6,263		6,263
Income tax expense	15,299		15,299
Other	5,468		5,468
Depreciation expense	<u>23,617</u>	<u> </u>	<u>23,617</u>
Total Expenses	<u>1,443,693</u>	<u>101,499</u>	<u>1,545,192</u>
Excess of revenues (expenses) over expenses	7,451	(54,403)	(46,952)
Beginning fund balances	164,827	1,441,211	1,606,038
Prior period adjustments:			
2007 Legal expense	(25,408)		(25,408)
2007 Other income and expense	(23,760)		(23,760)
Income tax payable	22,000		22,000
Prior year property additions	46,950		46,950
Interfund transfers	<u>(131,886)</u>	<u>131,886</u>	<u> </u>
Ending Fund Balance	<u>\$60,174</u>	<u>\$1,518,694</u>	<u>\$1,578,868</u>

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

Ventana Lakes Property Owners Association
Statements of Cash Flows
For the Year Ended December 31, 2008

	Operating	Replacement	Total
Cash Flows from Operating Activities			
Excess of Revenues over Expenses	\$7,451	(\$54,403)	(\$46,952)
Adjustments to reconcile excess of expenses over revenue to net cash used by operating activities:			
Depreciation expense	23,617		23,617
Bad debt write off	6,263		6,263
Transfers	(131,886)	131,886	
Plus: Decrease in Current Assets and Increase in Current Liabilities			
Increase in due to/from other funds	6,446	(6,446)	
Increase in accounts payable			
Increase in prepaid assessments	16,674		16,674
Increase in accrued payroll	1,393		1,393
Less: Increases in Current Assets and Decreases in Current liabilities			
Increase in assessment receivable	(9,944)		(9,944)
Increase in prepaid income tax	(8,461)		
Decrease in key deposits	(5,703)		
Decrease in accounts payable	<u>(21,818)</u>		
Net cash provided (used) in operating activities	(115,968)	71,037	(8,949)
Cash Flows used in Investing Activities			
Purchases of fixed assets	(52,196)		(52,196)
Disposal of fixed assets	2,609		2,609
Sale of securities		<u>110,776</u>	<u>110,776</u>
Net cash provided (used) in investing	(49,587)	110,776	61,189
Net decrease in Cash and Cash Equivalents	(165,555)	181,813	16,258
Cash and Cash Equivalents, Beginning of Year	<u>276,147</u>	<u>153,213</u>	<u>429,360</u>
Cash and Cash Equivalents, End of Year	<u>\$110,592</u>	<u>\$335,026</u>	<u>\$445,618</u>

Income tax paid \$23,760

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

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2008

Note 1 Organization

Ventana Lakes Property Owners Association (the Association) was incorporated on August 11, 1986 under the laws of the State of Arizona. The principal activity of the Association is to provide for the management, maintenance and care of the common area and other property placed under the Association's control. Ventana Lakes Property Owners Association consists of 1,701 member owned units.

Note 2 Summary of Significant Accounting Policies

Pervasiveness of 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.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds, deferred maintenance funds, and funds designated for future 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 management. Disbursements from the replacement fund generally may be made only for designated purposes.

Recognition of assets and depreciation policy

The Association recognizes furniture, equipment and improvements at cost. The property is depreciated over its estimated useful life. Assets are being depreciated using the straight-line method.

Cash and cash equivalents

For purposes of the statement of cash flows, the Association considers all cash balances with maturities of less than 90 days to be cash equivalents.

Investments

Investments consist of certificates of deposits with readily determinable fair values held at various banks and are recorded at their fair values in the statement of financial position.

Operating Revenue

The Association's revenue is primarily from member assessments and fees.

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2008

Note 2 Summary of Significant Accounting Policies, continued

Financial Instruments, concentrations of credit risk

The Association maintains its temporary cash investments with a high credit quality financial institution and a large brokerage firm. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor or the Securities Investor Protection Corporation (SIPC) up to \$500,000.. At times such cash investments may be in excess of the FDIC or the SPIC insurance limit. At December 31, 2008, the Association had approximately \$631,611 in uninsured cash investments. Management believes the Association is not exposed to any significant credit risk on cash and cash equivalents.

Member assessments are secured by owners' real estate. The association has the ability to lien homeowners' property for payment of member assessments receivable. Most members pay their quarterly assessments in advance or by automatic account deductions. At December 31, 2008, \$14,218 was due as member accounts receivable; the allowance for doubtful accounts was \$4,156. After considerable efforts \$6,623 has been written off as bad debt during 2008. Management believes the Association is not exposed to any significant credit risk from member assessments receivable.

Note 3 Future Repairs and Replacements

The Association's governing documents require that funds be accumulated for future repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

Association Reserves Arizona, LLC conducted a study dated October 22, 2007 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs of the components of common property. Funding requirements consider an annual inflation rate of 3.00%, net of taxes, on amounts funded for future repairs and replacements. The table at Note 9 displays information for the reserve study on Future Repairs and Replacements.

The board is funding for repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Currently, the reserve fund is \$1,518,694.

Funds are being accumulated in reserve funds based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income 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 all future needs for repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay repairs and replacements until funds are available.

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2008

Note 4 Owners' Assessments

During 2008, annual assessments to owners were as follows:

	Units	Annual Fee	Annual Total
Owner Assessments	1701	732.00	1,245,132.00
Additional Garden Assessments	108	1,080.00	116,640.00

The annual budget and assessments of owners are determined by the board of directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Note 5 Federal and State Taxes

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. For the year ended December 31, 2008, the Association has elected to be taxed as a regular corporation and filed Form 1120.

In 2008, income tax expense was \$10,213 for federal income tax and \$5,086 for Arizona income tax.

Note 6 - Fixed Assets

Fixed assets are carried at cost. Depreciation is computed, using the straight-line method, over the estimated useful lives of assets, as follows:

Office Equipment	3 to 7 years
Other Equipment	5 to 10 years
Buildings and structures	5 to 7 years

Fixed assets, net of depreciation, include the following:

Buildings and structures	\$208,902
Equipment	56,273
Office equipment and computers	7,581
Vehicles	<u>1,656</u>
	274,412
Less accumulated depreciation	<u>69,674</u>
	<u>\$204,738</u>

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2008

Note 7 - Investments

The Association invested in Certificates of Deposit during 2008. At December 31, 2008, the Association's balances were:

	<u>Fair Value</u>
Certificates of Deposit	
Maturing 91 days through Five Years	\$1,028,694
Maturing after Five Years through Ten Years	<u>146,973</u>
Totals	<u>\$1,175,667</u>

Note 8 - Operating Lease

The Association executed a non-cancelable operating lease for two copiers. Terms are payments of \$1,047 per month for 60 months, beginning July 2008. Payments are due, as follows:

Year ended December 31,	
2009	\$12,567
2010	12,567
2011	12,567
2012	12,567
2013	6,283

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2008

Note 9 - Information from Reserve Study - Future Repairs and Replacements

Association Reserves Arizona, LLC conducted a study dated October 22, 2007 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates are based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3.0% and interest rate of 3.0%, after tax yield, on amounts funded for future repairs and replacements. The table below summarizes projected replacement and reserve requirements from 2008 through 2016.

Year	Replacement Cost	Annual Contribution	Annual Interest Contribution	Annual Expenditures	Projected Ending Reserves	Fully Funded Reserves	Percent Fully Funded
2008	2,260,750	168,000	35,764	369,540	1,110,821	1,709,046	65%
2009	2,328,573	176,400	34,021	160,974	1,160,269	1,580,356	73%
2010	2,398,430	185,220	36,604	98,865	1,283,227	1,661,054	77%
2011	2,470,383	194,481	27,925	924,758	580,874	1,814,116	32%
2012	2,544,494	204,205	17,177	236,498	535,759	1,125,620	48%
2013	2,620,829	214,415	17,411	201,059	596,526	1,130,018	53%
2014	2,699,454	225,136	17,493	267,927	571,228	1,179,209	48%
2015	2,780,437	236,393	19,509	96,053	731,077	1,170,022	62%
2016	2,863,850	248,213	21,904	270,044	731,150	1,346,331	54%