
Ventana Lakes Property Owners Association

**Financial Statements
December 31, 2010**

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Independent Auditor's Report

Ventana Lakes Property Owners Association
Sun City, Arizona

I have audited the accompanying balance sheet of the Ventana Lakes Property Owners Association, as of December 31, 2010, and the related statements of revenues and expenses and changes in fund balances and 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, 2010, and the results of its operations, its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United State of America require that the information on future major repairs and replacements on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide assurance.

May 18, 2011

Ventana Lakes Property Owners Association

Balance Sheets December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Funds</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$449,117	\$514,785	\$963,902
Assessments receivable, net of allowance for doubtful accounts	30,907		30,907
Investments		903,715	903,715
Prepaid income tax	6,168		6,168
Prepaid landscaping	2,000		2,000
Due from operating	5,090	15,789	20,879
Fixed assets, net of accumulated depreciation	<u>196,824</u>	<u> </u>	<u>196,824</u>
Total Assets	<u>\$690,106</u>	<u>\$1,434,289</u>	<u>\$2,124,395</u>
Liabilities and Fund Balances			
Due to reserve/operating	\$15,789	\$5,090	\$20,879
Accounts payable and other accrued expenses	1,131		1,131
Accrued payroll tax	4,720		4,720
Key deposits	37,533		37,533
Prepaid assessments	<u>168,676</u>	<u> </u>	<u>168,676</u>
Total Liabilities	227,849	5,090	232,939
Fund Balances			
Fund Balances	<u>462,257</u>	<u>1,429,199</u>	<u>1,891,456</u>
Total Liabilities and Fund Balances	<u>\$690,106</u>	<u>\$1,434,289</u>	<u>\$2,124,395</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, 2010

	<u>Operating Fund</u>	<u>Replacement Funds</u>	<u>Total</u>
Revenues			
Member assessments and fees	\$1,575,498	\$	\$1,575,498
Activity fees	26,210		26,210
Bingo	2,934		2,934
Rental income	12,000		12,000
Advertising	5,042		2,507
Other	7,228	12,230	19,458
Interest and dividends	1,583	58,942	60,525
Unrealized loss on securities		(10,470)	(10,470)
Unrealized gain on securities		<u>2,820</u>	<u>2,820</u>
	<u>1,630,495</u>	<u>63,522</u>	<u>1,691,482</u>
Expenses			
Wages and related expenses	171,896		171,896
Administration	40,261		40,261
Common area landscape and maintenance	520,904		520,904
Computer/internet	9,234		9,234
Replacement and reconstruction		171,867	171,867
Utilities	381,370		381,370
Activities	27,545		27,545
Bingo	3,720		3,720
Insurance	28,867		28,867
Legal and accounting	58,430		58,430
Building maintenance	64,434		64,434
Operating lease	19,542		19,542
Bad debt expense	7,741		7,741
Arizona Income tax expense	1,484		1,484
Security	1,615		1,615
Depreciation expense	<u>52,741</u>		<u>52,741</u>
Total Expenses	<u>1,389,784</u>	<u>171,867</u>	<u>1,561,651</u>
Excess of revenues over expenses	240,711	(108,345)	132,366
Beginning fund balance	116,559	1,642,531	1,759,090
Interfund transfers	<u>104,987</u>	<u>(104,987)</u>	
Ending Fund Balance	<u>\$462,257</u>	<u>\$1,429,199</u>	<u>\$1,891,456</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, 2010

	Operating	Replacement	Total
Cash Flows from Operating Activities			
Excess of Revenues over Expenses	\$240,711	(\$108,345)	\$132,366
Adjustments to reconcile excess of expenses over revenue to net cash used by operating activities:			
Depreciation expense	52,741		52,741
Bad debt write off	7,741		7,741
Transfers	104,987	(104,987)	
Plus: Decrease in Current Assets and Increase in Current Liabilities			
Increase (decrease) in due to other funds	2,895	(2,895)	
Increase in accounts payable and other accrued expenses	1,131		1,131
Increase in key deposits	3,390		3,390
Decrease in prepaid income taxes	2,394		2,394
Less: Increases in Current Assets and Decreases in Current liabilities			
Increase in assessment receivable	(15,060)		(15,060)
Increase in prepaid Garden landscaping	(2,000)		(2,000)
Decrease in accrued payroll tax	(39)		(39)
Decrease in prepaid assessments	<u>(26,162)</u>		<u>(26,162)</u>
Net cash provided (used) in operating activities	372,729	(216,227)	156,502
Cash Flows used in Investing Activities			
Purchases of fixed assets	(48,806)		(48,806)
Sale of securities		<u>231,269</u>	<u>231,269</u>
Net cash provided (used) in investing	(48,806)	231,269	182,463
Net increase in Cash and Cash Equivalents	323,923	15,042	338,965
Cash and Cash Equivalents, Beginning of Year	<u>125,194</u>	<u>499,743</u>	<u>624,937</u>
Cash and Cash Equivalents, End of Year	<u>\$449,117</u>	<u>\$514,785</u>	<u>\$963,902</u>

Income tax paid: \$6,742

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

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2010

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

Basis of 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 separate funds. 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. Disbursements from the operating fund are generally at the discretion of the board of directors and management.

Replacement Fund

This fund is used to accumulate financial resources designated for the future major repairs and replacements. It is the Association's policy to allocate interest earned on Replacement Fund cash and cash equivalents as revenues of the fund. Disbursements from the replacement fund generally may be made only for designated purposes.

Cash and cash equivalents

For purposes of the statement of cash flows, the Association considers all cash balances with maturities of 90 days or less 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 balance sheet. The Association intends to hold certificates until maturity.

Revenue Recognition

The Association's revenue is primarily from homeowner assessment fees. These fees provide funds for operating expenses, future capital acquisitions and major repairs and replacements. Assessments are billed annually and recognized as income when earned. The 2010 annual assessment is \$828.00 with an additional annual assessment on the Garden units of \$960 per unit..

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.

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2010

Note 2 Summary of Significant Accounting Policies, continued

Common and Personal Property

In accordance with the American Institute of Certified Public Accountants guidelines, the Association recognizes (a) common personal property and (b) real property to which it has title or other evidence of ownership and either:

- (1) can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash and it can retain the proceeds, or
- (2) the property is used to generate significant cash flows from members on basis of usage or from nonmembers.

The Association reviews its property and equipment whenever events indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss is recorded at December 31, 2010.

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.

Financial Instruments, concentrations of credit risk

The Association maintains its temporary cash investments with high quality financial institutions. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC). At times such cash investments may be in excess of the FDIC insurance limit. 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, 2010, \$37,907 was due as member accounts receivable; the allowance for doubtful accounts was \$7,000. After considerable efforts, \$4,138 has been written off as bad debt during 2010. Management believes the Association is not exposed to any significant credit risk from member assessments receivable.

Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 18, 2011, the date the financial statements were available for issue.

Ventana Lakes Property Owners Association

Notes to Financial Statements

December 31, 2010

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 August 17, 2010 for the period June 1, 2010 through December 31, 2010 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%, and an interest rate of 1.5% after tax yield, on amounts funded for future repairs and replacements. The table at Note 10 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 \$1,418,500.

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.

Note 4 Federal and State Taxes

Each year, the Association elects to file either as a homeowner's association in accordance with Internal Revenue Code section 528, using form 1120-H or as a regular corporation, using form 1120. In 2010, the Association filed form 1120-H, as a homeowner's association. Ventana Lakes has no federal income tax expense for 2010. Arizona income tax expense for 2010 is \$1,484.

The Association undergoes an annual analysis of its various tax positions, assessing the likelihood of those positions being upheld upon examination with the relevant tax authority, as defined by Financial Interpretation No 48.

Note 5 Management Agreement

Under the terms of the management agreement entered into between the Association and Colby Management (the management agent), the management agent will provide certain professional services, as defined in the management agreement for a set fee based on the number of homes in the Association. Management fees incurred by the Association for the year ended December 31, 2010 was approximately \$28,000.

Note 6 Litigation

The Association may become involved in claims and pending litigation arising in the normal course of its operations. The Association is currently not involved in any such litigation which management believes could have a materially adverse effect on its financial position.

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2010

Note 7 Owners' Assessments

During 2010, annual assessments to owners were as follows:

	Units	Annual Fee	Annual Total
Owner Assessments	1701	828.00	1,408,428.00
Additional Garden Assessments	108	960.00	103,680.00

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

Note 8 Property, Plant and Equipment

Depreciation expense for the year ended December 31, 2010 was \$52,741 including \$33,749 of federal bonus depreciation.

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

Furniture and equipment	5 to 7 years
Buildings and structures	7 to 39 years

Fixed assets, net of depreciation, include the following:

Buildings and structures	\$267,211
Equipment	77,596
Office equipment and computers	7,583
Vehicles	<u>1,656</u>
	354,046
Less accumulated depreciation	<u>157,222</u>
	<u>\$196,824</u>

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2010

Note 9 Investments

The Association invested in Certificates of Deposit during 2010. At December 31, 2010, the Association's balances were:

	Fair Value
Certificates of Deposit	
Maturing 91 days through Five Years	\$878,163
Maturing after Five Years through Ten Years	<u>25,552</u>
Totals	<u>\$903,715</u>

Note 10 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. Lease expense for the two copiers for 2010 is \$19,541. Payments are due, as follows:

Year ended December 31,	
2011	12,567
2012	12,567
2013	6,283

Ventana Lakes Property Owners Association

Notes to Financial Statements December 31, 2010

Note 11 Information from Reserve Study - Future Repairs and Replacements

Association Reserves Arizona, LLC conducted a study dated August 17, 2010 for the year 2010 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 1.5%, after tax yield, on amounts funded for future repairs and replacements. The table below summarizes projected replacement and reserve requirements from 2011 through 2020.

Year	Replacement Cost	Annual Contribution	Annual Interest Contribution	Annual Expenditure	Projected Ending Reserves	Fully Funded Reserves	Percent Fully Funded
2011	2,658,480	192,000	15,752	53,972	1,127,686	1,705,178	66%
2012	2,738,234	206,880	17,597	132,071	1,220,092	1,910,288	64%
2013	2,820,381	222,913	18,784	175,689	1,286,100	2,053,268	63%
2014	2,904,993	240,189	19,822	203,515	1,342,596	2,163,811	62%
2015	2,992,143	258,804	21,060	187,304	1,435,156	2,255,907	64%
2016	3,081,907	278,861	20,514	464,665	1,269,866	2,374,567	53%
2017	3,174,364	300,474	15,969	757,541	828,768	2,218,421	37%
2018	3,269,595	323,759	9,502	755,109	406,920	1,305,130	31%
2019	3,367,683	348,851	7,912	146,983	616,700	1,467,409	42%
2020	3,468,713	375,887	9,774	347,073	655,288	1,432,028	46%