

***TAMARAC HILLS***  
***HOMEOWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION

**FEBRUARY 28, 2006 and 2005**

***L.R. COMPTON II, LLC***

**Certified Public Accountants**

3595 South Teller Street, Suite 402

Lakewood, Colorado 80235

# **TAMARAC HILLS HOMEOWNERS ASSOCIATION, INC.**

**FEBRUARY 28, 2006 and 2005**

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# ***L.R. COMPTON II, LLC***

## **Certified Public Accountants**

3595 S. Teller Street, Suite 402

Lakewood, Colorado 80235

(303) 980-6232

### ***Independent Auditor's Report***

Board of Directors

Tamarac Hills Homeowners Association, Inc.

Denver, Colorado

We have audited the accompanying balance sheets of Tamarac Hills Homeowners Association, Inc. as of February 28, 2006 and 2005 and the related statements of revenue, expenditures and changes in fund balance of the operating fund and the revenue, expenditures and changes in its replacement funds, and cash flows of the operating fund for the years 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 audits 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, and 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 audits provide 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 Tamarac Hills Homeowners Association, Inc. as of February 28, 2006 and 2005 and the results of operations of its operating fund and of its replacement funds, and its cash flows of the operating fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

October 12, 2006

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**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
BALANCE SHEETS

|                                                 | <b>YEARS ENDED FEBRUARY 28</b> |                              |
|-------------------------------------------------|--------------------------------|------------------------------|
|                                                 | <b>2006</b>                    | <b>2005</b>                  |
| <b><u>ASSETS</u></b>                            |                                |                              |
| <b><i>CURRENT ASSETS</i></b>                    |                                |                              |
| Cash, Operating Fund                            | \$ 32,430                      | \$ 34,517                    |
| Cash, Building Fund                             | 53,047                         | 44,437                       |
| Cash, Common Fund                               | 81,937                         | 72,149                       |
| Certificates of Deposit, Common Fund            | 120,000                        | 90,000                       |
| Homeowners' Dues Receivable                     | 229                            | 690                          |
| Interest Receivable, Common Fund                | 119                            | 747                          |
| Prepaid Items                                   | <u>5,390</u>                   | <u>5,491</u>                 |
| <i>Total Current Assets</i>                     | <u>293,152</u>                 | <u>248,031</u>               |
| <br><b><i>TOTAL ASSETS</i></b>                  | <br><b><u>\$ 293,152</u></b>   | <br><b><u>\$ 248,031</u></b> |
| <br><b><u>LIABILITIES and FUND BALANCES</u></b> |                                |                              |
| <b><i>CURRENT LIABILITIES</i></b>               |                                |                              |
| Accounts Payable                                | \$ 7,554                       | \$ 10,977                    |
| Prepaid Homeowners' Dues                        | <u>5,975</u>                   | <u>7,871</u>                 |
| <i>Total Liabilities</i>                        | <u>13,529</u>                  | <u>18,848</u>                |
| <br><b><i>FUND BALANCES</i></b>                 |                                |                              |
| Additional Paid-In Capital                      | 7,227                          | 7,227                        |
| Operating Fund                                  | 17,293                         | 14,623                       |
| Replacement Funds                               |                                |                              |
| Building Fund                                   | 53,047                         | 44,437                       |
| Common Fund                                     | <u>\$ 202,056</u>              | <u>\$ 162,896</u>            |
| <i>Total Fund Balances</i>                      | <u>279,623</u>                 | <u>229,183</u>               |
| <br><b><i>TOTAL LIABILITIES and</i></b>         | <br><b><u>\$ 293,152</u></b>   | <br><b><u>\$ 248,031</u></b> |
| <b><i>FUND BALANCES</i></b>                     |                                |                              |

See Notes to Financial Statements

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
 STATEMENTS of REVENUE, EXPENDITURES  
 and CHANGES in OPERATING FUND

**OPERATING FUND**

|                                                    | <b><u>YEARS ENDED FEBRUARY 28</u></b> |                         |
|----------------------------------------------------|---------------------------------------|-------------------------|
|                                                    | <b><u>2006</u></b>                    | <b><u>2005</u></b>      |
| <b>REVENUE</b>                                     |                                       |                         |
| Homeowners' Dues                                   | \$ 208,560                            | \$ 203,820              |
| Other Income                                       | <u>315</u>                            | <u>782</u>              |
| <i>Total Revenue</i>                               | 208,875                               | 204,602                 |
| <br><b>EXPENDITURES</b>                            |                                       |                         |
| Maintenance Expenses                               | 74,427                                | 70,241                  |
| Operating Expenses                                 |                                       |                         |
| Dues Transfer to Building Fund                     | 33,400                                | 37,683                  |
| Dues Transfer to Common Fund                       | 46,500                                | 35,400                  |
| Utilities                                          | <u>18,464</u>                         | <u>16,220</u>           |
| <i>Total Operating Expenses</i>                    | 98,364                                | 89,303                  |
| Administrative Expenses                            |                                       |                         |
| Management Fees                                    | 12,960                                | 12,860                  |
| Office and Communications                          | 7,913                                 | 5,188                   |
| Professional Fees                                  | <u>4,668</u>                          | <u>4,410</u>            |
| <i>Total Administrative Expenses</i>               | 25,541                                | 22,458                  |
| Insurance                                          | 7,217                                 | 7,981                   |
| Income Taxes                                       | <u>656</u>                            | <u>21</u>               |
| <br>Total Expenditures                             | <u>206,205</u>                        | <u>190,004</u>          |
| <br><b>EXCESS of REVENUE<br/>OVER EXPENDITURES</b> | <b>2,670</b>                          | <b>14,598</b>           |
| <br>Operating Fund, Beginning of Year              | <u>14,623</u>                         | <u>25</u>               |
| <br><b>OPERATING FUND, End of Year</b>             | <b>\$ <u>17,293</u></b>               | <b>\$ <u>14,623</u></b> |

See Notes to Financial Statements

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
 STATEMENTS of REVENUE, EXPENDITURES  
 and CHANGES in REPLACEMENT FUNDS

**BUILDING FUND**

|                                   | <b><u>YEARS ENDED FEBRUARY 28</u></b> |                         |
|-----------------------------------|---------------------------------------|-------------------------|
|                                   | <b><u>2006</u></b>                    | <b><u>2005</u></b>      |
| <b>REVENUE</b>                    |                                       |                         |
| Dues Transferred from             |                                       |                         |
| Operating Fund                    | \$ 33,400                             | \$ 37,683               |
| Interest                          | <u>738</u>                            | <u>186</u>              |
| <i>Total Revenue</i>              | 34,138                                | 37,869                  |
| <b>EXPENDITURES</b>               |                                       |                         |
| Major Maintenance                 |                                       |                         |
| Exterior Refinishing              | <u>25,528</u>                         | <u>25,431</u>           |
| <i>Total Expenditures</i>         | <u>25,528</u>                         | <u>25,431</u>           |
| <b>EXCESS of REVENUE</b>          |                                       |                         |
| <b>OVER EXPENDITURES</b>          | <b>8,610</b>                          | <b>12,438</b>           |
| Building Fund, Beginning of Year  | <u>44,437</u>                         | <u>31,999</u>           |
| <b>BUILDING FUND, End of Year</b> | <b><u>\$ 53,047</u></b>               | <b><u>\$ 44,437</u></b> |

See Notes to Financial Statements

**TAMARAC HILLS  
HOMEOWNERS ASSOCIATION, INC.**

STATEMENTS of REVENUE, EXPENDITURES  
and CHANGES in REPLACEMENT FUNDS

**COMMON FUND**

|                                                | <b><u>YEARS ENDED FEBRUARY 28</u></b> |                          |
|------------------------------------------------|---------------------------------------|--------------------------|
|                                                | <b><u>2006</u></b>                    | <b><u>2005</u></b>       |
| <b>REVENUE</b>                                 |                                       |                          |
| Dues Transferred from<br>Operating Fund        | \$ 46,500                             | \$ 35,400                |
| Interest                                       | <u>5,244</u>                          | <u>1,826</u>             |
| <i>Total Revenue</i>                           | 51,744                                | 37,226                   |
| <b>EXPENDITURES</b>                            |                                       |                          |
| Major Maintenance                              |                                       |                          |
| Reserve Sewer Study                            | -                                     | 4,400                    |
| Street Paving                                  | 7,684                                 | 6,125                    |
| Pool Evaluation Study                          | 2,421                                 | -                        |
| Grounds Maintenance                            | 2,479                                 | 5,605                    |
| Lighting Replacement                           | -                                     | 1,145                    |
| Sprinklers                                     | <u>-</u>                              | <u>8,225</u>             |
| <i>Total Expenditures</i>                      | <u>12,584</u>                         | <u>25,500</u>            |
| <b>EXCESS of REVENUE<br/>OVER EXPENDITURES</b> | <b>39,160</b>                         | <b>11,726</b>            |
| Common Fund, Beginning of Year                 | <u>162,896</u>                        | <u>151,170</u>           |
| <b>COMMON FUND, End of Year</b>                | <b><u>\$ 202,056</u></b>              | <b><u>\$ 162,896</u></b> |

See Notes to Financial Statements

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**

STATEMENTS of CASH FLOWS

**OPERATING FUND**

|                                                     | <b><u>YEARS ENDED FEBRUARY 28</u></b> |                         |
|-----------------------------------------------------|---------------------------------------|-------------------------|
|                                                     | <b><u>2006</u></b>                    | <b><u>2005</u></b>      |
| <b><i>CASH PROVIDED (USED) by</i></b>               |                                       |                         |
| <b><i>OPERATING ACTIVITIES</i></b>                  |                                       |                         |
| Excess (Deficit) of Revenue                         |                                       |                         |
| Over Expenditures                                   | \$ 2,670                              | \$ 14,598               |
| <i>Adjustments to Reconcile Excess (Deficit) of</i> |                                       |                         |
| <i>Revenue Over Expenditures to Net Cash</i>        |                                       |                         |
| <i>Provided (Used) by Operating Activities</i>      |                                       |                         |
| Homeowners' Dues Receivable                         | 461                                   | 3,292                   |
| Prepaid Items                                       | 101                                   | 125                     |
| Accounts Payable                                    | (3,423)                               | 5,227                   |
| Prepaid Homeowners' Dues                            | <u>(1,896)</u>                        | <u>2,180</u>            |
| <i>Total Cash Provided (Used)</i>                   |                                       |                         |
| <i>by Operating Activities</i>                      | (2,087)                               | 25,422                  |
| <b><i>NET INCREASE (DECREASE) in CASH</i></b>       | <b>(2,087)</b>                        | <b>25,422</b>           |
| Cash, Beginning of Year                             | <u>34,517</u>                         | <u>9,095</u>            |
| <b><i>CASH, End of Year</i></b>                     | <b><u>\$ 32,430</u></b>               | <b><u>\$ 34,517</u></b> |

See Notes to Financial Statements

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
NOTES to FINANCIAL STATEMENTS  
**FEBRUARY 28, 2006 and 2005**

**HISTORY and SIGNIFICANT ACCOUNTING POLICIES**

*History*

Tamarac Hills Homeowners Association, Inc. commenced operations under a Declaration of Covenants and Restrictions dated March 12, 1974, and revised June 23, 2000. The Association was organized as a Colorado Nonprofit Corporation. Tamarac Hills Homeowners Association, Inc. (the Community), consists of 79 residential units located in Denver, Colorado. Its members are the owners of the units and the Association's purpose is to operate and manage the common areas and related improvements within the Community. Examples of the common areas include landscaped areas as well as the pool and tennis court areas. Related improvements refers to buildings, fences or walls on the property or lot for which the Association is responsible.

The common areas of the community were transferred to the Association by the Developer and since no value for the common areas transferred was set at the date of transfer no historical cost for these assets is recorded in these financial statements.

*Significant Accounting Policies*

Accrual Accounting

The financial statements of Tamarac Hills Homeowners Association, Inc. are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applied to *Common Interest Realty Associations*.

Fund Accounting

The books and records of the Association are maintained to recognize three primary funds:

**Operating Fund:**

This fund records the daily activities of operating the Association, including billing and collecting monthly dues to/from the homeowners, disbursing funds under the annual budget and paying income taxes, if any are due, on income unrelated to membership in the Association.

**Replacement Funds:**

Building Fund

The Association has an ongoing major maintenance project under which the exteriors of the buildings are refurbished on a five year cycle. The annual refinishing contract, the allocation of homeowners' dues for and payments of refurbishing expenditures constitute the sole purpose of this fund. Allocated homeowners' dues collected are maintained in an interest bearing account that is anticipated to be sufficient for the projected costs estimated to be incurred in following fiscal year.

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
NOTES to FINANCIAL STATEMENTS  
**FEBRUARY 28, 2006 and 2005**  
(Continued)

**HISTORY and SIGNIFICANT ACCOUNTING POLICIES**

Fund Accounting (Continued)

Common Fund

This fund records that portion of monthly homeowners' dues budgeted toward future major maintenance and replacement expenditures as projected in the Association's January 2003 *Level 1 Reserve Analysis*. This study, prepared by an independent building consultant, forecasts the cash necessary to fund the projects considered advisable to maintain the Association's property in first class condition. Homeowners' dues collected for this fund are invested in money market funds and certificates of deposit due in the following fiscal year.

Prepaid Items

The Association may pay certain expenses in advance of their actual due or usage dates, including insurance, memberships and/or taxes. Until expensing in the appropriate accounting period these items are shown as prepaid.

Prepaid Homeowners' Dues

Monthly homeowners' dues are billed in advance, and may be paid prior to the period billed. Payments received in advance are recorded as prepaid homeowners' dues and not recognized as income until the appropriate accounting period.

Income Taxes

The Association is responsible for any income taxes due on its income from sources unrelated to members' ownership of a unit. Such income could include interest, dividends or investment gains/losses, advertising and other income of this nature. Income tax filings may be under a special election as a Homeowners Association, or as a standard Corporation. The funds are combined for tax filing, and in the years ending February 28, 2006 and 2005 the Association chose to file standard corporate returns (forms 1120 and 112).

**NOTE 2: Homeowners' Dues Receivable**

In the Board's opinion, the receivables arising from ordinary homeowner activities are collectible in full since they constitute a legal debt of the property subject only to a prior first mortgage on the unit. The total owed to the Association includes any late and/or legal fees incurred in collection. Collection of these debts, however, may require the Board of the Association to exercise its legal remedies, the cost of which may or may not be collected in final resolution of the debt. No such remedies are in process at February 28, 2006 and 2005, and no allowance for uncollectible homeowner accounts has been provided herein.

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
NOTES to FINANCIAL STATEMENTS  
**FEBRUARY 28, 2006 and 2005**  
(Continued)

**NOTE 3: Common Fund**

The Association's governing documents direct the Board to accumulate funds for future major repairs and replacements. Homeowners' dues designated in the annual budget for the Common Fund are transferred monthly and held in money market funds and certificates of deposit generally not available for normal operations.

The Board commissioned an independent building consultant to prepare a study of the future major repairs and replacement needs of the common areas of the Association. This study, *Level 1 Reserve Analysis* was completed in January 2003, projects the need for funds and their possible use for the years 2003 through 2033. Assumptions in the study include an annual inflation rate of 3.5% and an after-tax interest rate of 1.5%.

The Common Fund balances at year-end of \$202,056 and \$162,896 compare to the study's recommended funded balance of \$281,069 and \$290,640 respectively. The Board is reviewing the recommended annual transfer amounts and the recommended annual expense items for possible changes in the annual amounts charged to members and transferred to the Common Fund.

Actual earnings and expenditures may vary from the amounts estimated in the 2003 study, and the variations may be material. Therefore, amounts accumulated in Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional monies are found to be necessary, the Board can pass special assessments, delay the major repairs and replacement projects until funds are available, or, subject to membership approval, to increase regular assessments designated for the Replacement Fund.

**NOTE 4: Reclassifications**

Certain accounts presented in the financial statements of the Association for the year ended February 28, 2005 have been reclassified in these statements to conform to the format in use February 28, 2006.

***TAMARAC HILLS***  
***HOMEOWNERS ASSOCIATION, INC.***

SUPPLEMENTARY INFORMATION

FEBRUARY 28, 2006

# ***L.R. COMPTON II, LLC***

## **Certified Public Accountants**

3595 S. Teller Street, Suite 402  
Lakewood, Colorado 80235  
(303) 980-6232

### ***Independent Auditor's Report on Supplementary Information***

Members of the Board of Directors  
Tamarac Hills Homeowners Association, Inc.  
Denver, Colorado

Our report on our audit of the basic financial statements of Tamarac Hills Homeowners Association, Inc. at February 28, 2006 and 2005 and for the years then ended appears on page 1 of this report. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information for the year ended February 28, 2006 on page 11, Actual Revenue and Expenditures Versus Budget, Operating Fund, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Tamarac Hills Homeowners Association, Inc. Such information, except for the column marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Level 1 Reserve Analysis, presented on page 12, is not a required part of the basic financial statements of Tamarac Hills Homeowners Association, Inc. at February 28, 2006 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 method of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

October 12, 2006

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**  
 SCHEDULE of ACTUAL REVENUE and  
 EXPENDITURES VERSUS BUDGET  
**FEBRUARY 28, 2006**

**OPERATING FUND**

|                                                | Actual         | Budget<br>(Not Audited) | Difference<br>(Over)/Under<br>Budget |
|------------------------------------------------|----------------|-------------------------|--------------------------------------|
| <b>REVENUE</b>                                 |                |                         |                                      |
| Homeowners' Dues                               | \$ 208,560     | \$ 208,560              | \$ -                                 |
| Other Income                                   | <u>315</u>     | <u>100</u>              | <u>215</u>                           |
| <i>Total Revenue</i>                           | <u>208,875</u> | <u>208,660</u>          | <u>215</u>                           |
| <b>EXPENDITURES</b>                            |                |                         |                                      |
| Maintenance                                    | 74,427         | 77,250                  | 2,823                                |
| Operating Expenses                             |                |                         |                                      |
| Transfer to Replacement Fund                   | 46,500         | 46,500                  | -                                    |
| Transfer to Exterior Fund                      | 33,400         | 33,400                  | -                                    |
| Utilities                                      | <u>18,464</u>  | <u>21,790</u>           | <u>3,326</u>                         |
| <i>Total Operating</i>                         | <u>98,364</u>  | <u>101,690</u>          | <u>3,326</u>                         |
| Administrative Expenses                        |                |                         |                                      |
| Management Fees                                | 12,960         | 13,080                  | 120                                  |
| Office and Communications                      | 7,913          | 4,000                   | (3,913)                              |
| Professional Fees                              | <u>4,668</u>   | <u>3,150</u>            | <u>(1,518)</u>                       |
| <i>Total Administrative</i>                    | <u>25,541</u>  | <u>20,230</u>           | <u>(5,311)</u>                       |
| Insurance                                      | 7,217          | 8,407                   | 1,190                                |
| Income Taxes                                   | <u>656</u>     | <u>660</u>              | <u>4</u>                             |
| <i>Total Expenditures</i>                      | <u>206,205</u> | <u>208,237</u>          | <u>2,032</u>                         |
| <b>EXCESS OF REVENUE<br/>OVER EXPENDITURES</b> | <u>2,670</u>   | <u>423</u>              | <u>2,247</u>                         |

**NOTE:** Revenue and Expenditure Differences in ( ) represent amounts in excess of the budgeted items while the EXCESS of REVENUE OVER EXPENDITURES represents the amount exceeding the budget.

**TAMARAC HILLS**  
**HOMEOWNERS ASSOCIATION, INC.**

**LEVEL 1 RESERVE ANALYSIS**

January 15, 2003

(Not Audited)

**COMMON REPLACEMENT FUND**

The Association's Board of Directors contracted a study, *Level 1 Reserve Analysis*, to estimate the remaining useful live and the replacement costs of the components of the Association's common property. The 30 year study was prepared by an independent building consultant who inspected the common areas of property in November 2002 and presented the report on January 15, 2003. Costs were based on the estimated costs to repair or replace the common property components at the date of the study and assumed an annual inflation rate of 3.5% and an after-tax interest rate of 1.5%.

The following table is based on the 2003 study and presents summarized significant information about the components, estimated lives and costs of common property.

| <u>Components</u>                   | <u>Estimated<br/>Remaining<br/>Useful Lives<br/>in Years at<br/>February 28, 2006</u> | <u>Estimated<br/>Current<br/>Replacement<br/>Costs at<br/>February 28, 2003</u> |
|-------------------------------------|---------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Buildings                           | 2 to 9                                                                                | \$ 13,150                                                                       |
| Fencing                             | 1 to 14                                                                               | 118,825                                                                         |
| Pools and Tennis Courts             | 1 to 3                                                                                | 38,500                                                                          |
| Signs and Mailboxes                 | 8 to 13                                                                               | 6,650                                                                           |
| Asphalt and Concrete                | 1 to 10                                                                               | 101,600                                                                         |
| Irrigation                          | 1 to 2                                                                                | 175,000                                                                         |
| Landscaping                         | 1                                                                                     | <u>7,900</u>                                                                    |
| <b><i>Total Cost Projection</i></b> |                                                                                       | <b>\$ <u>461,625</u></b>                                                        |