

2010 Audit

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
1600 W. BROADWAY RD., STE 200
TEMPE, AZ 85282

April 14, 2011

Ginsburg & Dwaileebe CPAs, LLP
433 W. Monterey Ave.
Mesa, Arizona 85210

We are providing this letter in connection with your audit of the balance sheet of The Villages at Queen Creek Homeowners Association, 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 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of The Villages at Queen Creek Homeowners Association, Inc., in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

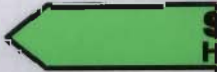
We confirm, to the best of our knowledge and belief, as of April 14, 2011, the following representations made to you during your audit.

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
- 2) We are responsible for the presentation of the supplemental information accompanying the financial statements about future major repairs and replacements.
- 3) We have made available to you all—
 - a) Financial records and related data.
 - b) Minutes of meetings of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 4) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 5) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 7) We have no knowledge of any fraud or suspected fraud affecting the Association involving—
 - a) management,
 - b) employees who have significant roles in internal control, or
 - c) others where the fraud could have a material effect on the financial statements.
- 8) We have no knowledge of any allegations of fraud or suspected fraud affecting the Association received in communications from employees, former employees, regulators, or others.
- 9) The Association has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

- 10) The following have been properly recorded or disclosed in the financial statements:
- a) Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - b) Guarantees, whether written or oral, under which the Association is contingently liable.
- 11) There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the date of the financial statements that make the Association vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.
- 12) There are no—
- a) Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.
 - d) Transfers or designations of fund balance or interfund borrowings that were not properly authorized and approved, or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
- 13) The Villages at Queen Creek Homeowners Association, Inc., has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
- 14) We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 15) The board of directors is collecting funds for future major repairs and replacements in conformity with The Villages at Queen Creek Homeowners Association, Inc.'s policy to fund for those needs based on a study conducted on June 8, 2007 for the year beginning January 1, 2008. The board of directors believes the funds will adequately provide for future major repairs and replacements.
- 16) The Association's allocation of expenses against exempt and nonexempt function income conforms with IRS rules, which require that the allocation be made "on a reasonable basis."
- 17) We understand that management is responsible for the Association's choice of filing Form 1120-H and the consequences thereof.
- No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustments to, or disclosure in, the financial statements.

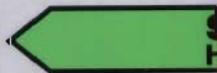
Signature:

Title: Board Member



Signature:

Title: Property Manager



Ginsburg & Dwaileebe CPAs LLP

Certified Public Accountants and Consultants

THE VILLAGES AT QUEEN CREEK
HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2010

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
The Villages at Queen Creek Homeowners Association, Inc.
Queen Creek, Arizona

We have audited the accompanying balance sheet of The Villages at Queen Creek Homeowners Association, Inc, as of December 31, 2010, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year 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 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 in the first paragraph above present fairly, in all material respects, the financial position of The Villages at Queen Creek Homeowners Association, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on future major repairs and replacements included in the accompanying schedule is not a required part of the basic financial statements 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.

Ginsburg & Dwaileebe CPAs, LLP

Ginsburg & Dwaileebe CPAs, LLP
Mesa, Arizona
April 14, 2011

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2010

ASSETS

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash	\$ 34,829	\$ 226,082	\$ 260,911
Accounts receivable, net	14,830	-	14,830
Prepaid insurance	5,432	-	5,432
Due to reserves	(6,933)	6,933	-
TOTAL ASSETS	48,158	233,015	281,173

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable	77,148	-	77,148
Accrued expenses	12,431	-	12,431
Prepaid assessments	88,366	-	88,366
TOTAL LIABILITIES	177,945	-	177,945
 FUND BALANCES	 (129,787)	 233,015	 103,228
TOTAL LIABILITIES AND FUND BALANCES	\$ 48,158	\$ 233,015	\$ 281,173

See accompanying notes to the financial statements

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Operating Fund	Replacement Fund	Total
REVENUES			
Homeowner assessments	\$ 707,650	\$ 84,142	\$ 791,792
Satellite association assessments	18,852	-	18,852
Working capital	949	-	949
Builder assessments	2,752	-	2,752
CC&R violation fees	14,525	-	14,525
Legal fee reimbursement	57,535	-	57,535
Interest income	116	1,226	1,342
Late charges	15,588	-	15,588
Self help	2,840	-	2,840
Transfer fees	10,905	-	10,905
Clubhouse rental	950	-	950
Gate remote fees	1,598	-	1,598
NSF fees	175	-	175
Other income	496	-	496
TOTAL REVENUES	834,932	85,368	920,301
EXPENSES			
Utilities	54,434	-	54,434
Maintenance	129,212	-	129,212
Contract services	482,273	-	482,273
Administrative	452,452	-	452,452
Major repairs and replacements	-	20,881	20,881
TOTAL EXPENSES	1,118,371	20,881	1,139,252
Excess of Revenues over (under) Expenses	(283,439)	64,487	(218,951)
Fund Balances, Beginning of Year	147,383	174,797	322,180
Interfund transfers	6,269	(6,269)	-
Fund Balances, End of Year	\$ (129,787)	\$ 233,015	\$ 103,228

See accompanying notes to the financial statements

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2010

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (283,439)	\$ 64,487	\$ (218,951)
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by (used in) operating activities:			
Decrease (increase) in			
Accounts receivable, net	286,594	-	286,594
Prepaid insurance	4,568	-	4,568
Increase (decrease) in			
Accounts payable	4,382	-	4,382
Accrued expenses	(10,184)	-	(10,184)
Assessments paid in advance	5,353	-	5,353
Net Cash Provided By (Used in) operating activities	<u>7,275</u>	<u>64,487</u>	<u>71,762</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund transfers	6,269	(6,269)	-
Interfund receivables/payables	(3,429)	3,429	-
Net Cash Provided By (Used in) financing activities	<u>2,840</u>	<u>(2,840)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	10,115	61,647	71,762
CASH, BEGINNING OF YEAR	<u>24,714</u>	<u>164,435</u>	<u>189,149</u>
CASH, END OF YEAR	<u><u>\$ 34,829</u></u>	<u><u>\$ 226,082</u></u>	<u><u>\$ 260,911</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for income taxes	\$ 45	\$ -	\$ 45

See accompanying notes to the financial statements

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: NATURE AND ORGANIZATION

The Villages at Queen Creek Homeowners Association, Inc., (the "Association"), a non-stock homeowners association, was incorporated on June 4, 2001 under the general non-profit laws of the State of Arizona and was organized for the purposes of maintaining common areas, holding title to property and maintaining architectural control. The Association consists of 1,744 residential units located in Queen Creek, Arizona. There is a board of directors that is elected by the member homeowners.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of Financial Statements

The Association's financial statements are prepared on the accrual basis of accounting, accordingly, revenues are recognized when earned and expenses are recognized when incurred. Assessments paid by members in advance are deferred and recognized as revenue when earned.

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

Cash listed as operating is available for current operations and is not bound by any restriction or designation. Cash listed as reserves is designated for future major repairs and replacements and is generally not available for current operations. The Association considers all highly liquid investments with an original maturity of three months or less to be cash.

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable, net

The Association has established an allowance for doubtful accounts of \$337,103, which offsets accounts receivable of \$351,933 for a net accounts receivable of \$14,830. The accounts receivable includes numerous accounts involving foreclosures and bankruptcies which have occurred over the past 3 to 4 years. The allowance for doubtful accounts was established using the amount outstanding at December 31, 2010 less 10% of the quarterly assessments. Management has determined that it is best to record an allowance against those receivables based on historical collection data. The Board of Directors will be analyzing the accounts during 2011 to identify which accounts should be written off.

Property and Equipment

The Association capitalizes common real property to which it has title or other evidence of ownership and can either:

- a. Dispose of property, at the discretion of the Board of Directors, for cash or claims to cash, and it can retain the proceeds.
- b. The property is used to generate significant cash flows from members on the basis of usage.

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Purchased property and equipment is recorded at cost and depreciated over various estimated useful lives using the straight-line method. Repairs and maintenance are charged to expense as incurred.

Maintenance Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and future major repairs and replacements. The Association's policy is to assess late fees and, if necessary, retain legal counsel and place liens on the properties of the homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year. Maintenance assessments were \$481 per unit and \$266 per unit for Parcel R, for the year ending 2010, payable in four equal quarterly installments.

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
AND RELATED INFORMATION
DECEMBER 31, 2010
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Association files its income tax return as a homeowner's association in accordance with Internal Revenue Code Section 528 using Form 1120-H. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest income.

Arizona income tax is based on the federal taxable income at 6.968% after adding the Form 1120-H \$100 specific deduction and deducting any net disbursements carryover from prior years.

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 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: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is setting aside funds for future major repairs and replacements, as required by the governing documents, based on funding requirements determined by the Board of Directors and a professional reserve study. The funds set aside each year are generated from member assessments and other net revenues, and are periodically transferred from the operating checking account into segregated reserve cash accounts.

Actual expenditures may vary from the estimated funding amounts determined by the Board of Directors and the reserve study, and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association may increase regular assessments, levy special assessments or delay major repairs and replacements until funds are available.

THE VILLAGES AT QUEEN CREEK HOMEOWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

An independent engineer conducted a study on June 8, 2007, for the year beginning January 1, 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair and replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance at December 31, 2010</u>
Roofing	9 - 24	\$ 23,394	\$ -
Paint	0 - 9	91,061	-
Fencing	13 - 25	260,493	-
Pool	4 - 13	31,039	-
Tennis Courts	6 - 18	69,000	-
Playground	5 - 20	87,389	-
Clubhouse	4 - 19	91,215	-
Irrigation and Mailboxes	0 - 23	160,860	-
Unallocated Funds		-	233,015
		<u>\$ 814,451</u>	<u>\$ 233,015</u>