

STONE BROOK HOMEOWNERS'
ASSOCIATION, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED
DECEMBER 31, 2009

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OLSON, REYES & SAUERWEIN, LLC

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Stoney Brook Homeowners' Association, Inc.
Denver, Colorado

We have audited the accompanying balance sheet of Stoney Brook Homeowners' Association, Inc. as of December 31, 2009, and the related statements of revenues and expenses, 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 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 Stoney Brook Homeowners' Association, Inc. as of December 31, 2009, and the results of its operations for the operating fund and for its replacement fund and its cash flows for the operating fund and replacement fund for the year then ended, in conformity with accounting principles generally accepted in the United States.

Olson, Reyes & Sauerwein, LLC

Denver, Colorado
January 25, 2010

Stoney Brook Homeowners' Association, Inc.
Balance Sheet
December 31, 2009

	December 31, 2009		Totals (Memorandum Only) December 31,	
	Operating Fund	Replacement Reserve Fund	2009	2008
Assets				
Cash and cash equivalents	\$ 34,230	\$ 159,143	\$ 193,373	\$ 132,261
Investments - certificates of deposit	-	198,695	198,695	198,399
Assessments receivable - net of \$8,000 reserve in 2009	4,698	-	4,698	9,347
Due from reserve fund	2,429	-	2,429	11,765
Prepaid income taxes	162	-	162	619
Prepaid expenses and other assets	51,875	-	51,875	52,190
Total current assets	<u>93,394</u>	<u>357,838</u>	<u>451,232</u>	<u>404,581</u>
Other asset - Deferred Compensation	7,892	-	7,892	3,037
Total assets	<u>\$ 101,286</u>	<u>\$ 357,838</u>	<u>\$ 459,124</u>	<u>\$ 407,618</u>
Liabilities and Fund Balances				
Accounts payable and accrued expenses	\$ 34,745	\$ -	\$ 34,745	\$ 36,480
Income taxes payable	362	-	362	-
Due to operating fund	-	2,429	2,429	11,765
Deferred revenue - Homeowners dues	9,650	-	9,650	700
Total current liabilities	<u>44,757</u>	<u>2,429</u>	<u>47,186</u>	<u>48,945</u>
Other liability - Deferred Compensation	7,892	-	7,892	3,037
Total liabilities	<u>52,649</u>	<u>2,429</u>	<u>55,078</u>	<u>51,982</u>
Designated for future repairs and replacements	-	355,409	355,409	305,629
Undesignated	48,637	-	48,637	50,007
Total fund balances	<u>48,637</u>	<u>355,409</u>	<u>404,046</u>	<u>355,636</u>
Total liabilities and fund balances	<u>\$ 101,286</u>	<u>\$ 357,838</u>	<u>\$ 459,124</u>	<u>\$ 407,618</u>

Stoney Brook Homeowners' Association, Inc.
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2009

	Year ended December 31, 2009		Totals (Memorandum Only) December 31,	
	Operating Fund	Replacement Reserve Fund	2009	2008
Revenues:				
Homeowner dues	\$ 907,790	\$ 310,450	\$ 1,218,240	\$ 1,184,400
Chateau fees	13,500	-	13,500	13,500
Interest	290	7,343	7,633	13,376
Other income	3,972	-	3,972	6,278
Total revenues	925,552	317,793	1,243,345	1,217,554
Expenses:				
Salaries and benefits	468,247	-	468,247	480,289
Administrative expenses	27,354	-	27,354	35,065
Maintenance expenses	81,742	-	81,742	89,741
Pool and clubhouse expenses	7,882	-	7,882	7,790
Utilities	198,704	-	198,704	194,228
Fixed expenses - insurance and other	109,167	-	109,167	118,648
Income taxes	1,480	-	1,480	1,661
Bad debts	8,000	-	8,000	-
Landscape	-	81,811	81,811	90,541
Site improvements	-	40,712	40,712	53,736
Exterior painting	-	133,582	133,582	76,893
Ponds and streams	-	34,884	34,884	63,516
Clubhouse and building maintenance	-	-	-	6,232
Operating equipment	-	-	-	22,702
Pool and tennis courts	-	-	-	3,255
Total expenses	902,576	290,989	1,193,565	1,244,297
Excess (deficit) of revenues over expenses before transfers	22,976	26,804	49,780	(26,743)
Transfers	(22,976)	22,976	-	-
Excess (deficit) of revenues over expenses after transfers	-	49,780	49,780	35,065
Fund balance, beginning of year	48,637	305,629	354,266	381,009
Fund balance, end of year	<u>\$ 48,637</u>	<u>\$ 355,409</u>	<u>\$ 404,046</u>	<u>\$ 354,266</u>

Stoney Brook Homeowners' Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2009

	Year ended December 31, 2009		Totals (Memorandum Only) December 31,	
	Operating Fund	Replacement Reserve Fund	2009	2008
	Cash flows from operating activities:			
Excess (deficit) of revenues over expenses	\$ 22,976	\$ 26,804	\$ 49,780	\$ (25,373)
Adjustments to reconcile Excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:				
Provision for uncollectible accounts	8,000	-	-	-
Changes in asset and liability items				
(Increase) decrease in :				
Due from reserve fund	9,336	-	9,336	(3,190)
Deferred compensation	(4,855)	-	(4,855)	(3,037)
Receivables and prepaids	(2,579)	-	(2,579)	(1,228)
Increase (decrease) in:				
Accounts payable and accrued expenses	(3,105)	-	(3,105)	(5,246)
Income taxes payable	362	-	362	(974)
Deferred revenue	8,950	-	8,950	255
Deferred compensation payable	4,855	-	4,855	3,037
Due to operating fund	-	(9,336)	(9,336)	3,190
Net cash provided (used) by operations	43,940	17,468	53,408	(32,566)
Cash flows from investing activities:				
Net (increase) decrease in certificates of deposit	-	(296)	(296)	99,757
Net cash provided by investing activities	-	(296)	(296)	99,757
Cash flows from financing activities:				
Transfers	(22,976)	22,976	-	-
Net cash provided by financing activities	(22,976)	22,976	-	-
Net increase (decrease) in cash	20,964	40,148	61,112	67,191
Cash and cash equivalents at beginning of period	13,266	118,995	132,261	65,070
Cash and cash equivalents at end of period	<u>\$ 34,230</u>	<u>\$ 159,143</u>	<u>\$ 193,373</u>	<u>\$ 132,261</u>
<u>Supplemental disclosures of cash flow information</u>				
Cash paid during the year for:				
Income taxes	<u>\$ 661</u>	<u>\$ -</u>	<u>\$ 661</u>	<u>\$ 3,254</u>
Interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

STONEY BROOK HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies

Stoney Brook Homeowners' Association, Inc. (the "Association") was incorporated on December 29, 1975, in the State of Colorado, to administer the operation and management of the Stoney Brook planned development. The development consists of 282 residential units located on 50 acres in Denver, Colorado.

Fund accounting on accrual basis

The Association operates according to its governing documents. The Association records its operations on the accrual basis. These financial statements separate funds into operating and replacement reserve funds:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association and recurring maintenance costs of the property.

Replacement Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Association to make accounting estimates which affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Property and equipment

Common area property, which was conveyed by the developer to the Association, is carried at no value in the financial statements. In accordance with accounting rules established by the American Institute of Certified Public Accountants in its "Audits of Common Interest Realty Associations", the Association's policy is not to capitalize common area assets. Accordingly, the clubhouse, tennis courts, swimming pool and approximately 15 acres of sidewalks, access roads and greenbelts have not been capitalized. Improvements to these assets are expensed as incurred. According to the Association's governing documents, a majority of all unit owners must approve dispositions of any common real property.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit with original maturities of three months or less.

Prepaid expenses

Expenses paid for insurance and storm drain expenses, which benefit the next year, are deferred as of December 31, 2009 and recognized the next year.

STONEY BROOK HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 1 Summary of significant accounting policies (continued)

Member assessments

Association members are subject to annual assessments (payable monthly) to provide funds for the Associations' operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. The Board has elected to establish a reserve for uncollectable assessments from the owners. At December 31, 2009 and 2008 the allowance was \$8,000 and none, respectively.

Concentration of credit risk

As of December 31, 2009 and 2008, the Associations cash and temporary cash investments consisted of demand deposits and interest bearing accounts. It is the Association's policy to maintain its bank accounts at financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2009. At December 31, 2009, the Association had no uninsured cash balances. The receivables at the balance sheet date represent fees due from homeowners.

Interfund transfers

At various times, the Operating Fund and the Reserve Fund may not have completed the cash transfers required under accrual accounting. Cash held for transfer to or from one fund to the other fund, if any, is shown as due from one fund to the other.

Total columns

Total columns in the basic financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate comparison and financial analysis. Data in these columns does not present financial position or results of operations in conformity with general accepted accounting principles since they are insufficiently detailed. Information for the prior year is derived from the audited financial statements for the year ended December 31, 2008 and has been reclassified to match the 2009 presentation with no change on net income.

STONEY BROOK HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 1 Summary of significant accounting policies (continued)

Future major repairs and replacements

The association accumulates funds for future major repairs and replacements based on estimated future costs. Actual future expenditures may vary from the estimated costs.

Income taxes

The Association has elected to file its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 277. As such, the Association is generally exempt from tax, but may be taxed on its non-member income, such as interest earnings, at regular federal and state corporate rates.

The Association adopted the provisions of FASB topic ASC 740 on January 1, 2009. As a result of the implementation the Association recognized no unrecognized tax benefits for the year ended December 31, 2009.

Note 2 Income taxes

Activities of the Association are defined as member or nonmember activities for purposes of determining income tax treatment under the Internal Revenue Code. Nonmember activity taxable income typically includes any net income from nonmember charges and interest earned net of certain administrative expenses. Net income from member activities is not taxable if the Association elects to apply the excess to the following year or to refund the excess to members.

Note 3 Replacement Reserve Funds

The Declaration of the Association provides that the annual assessment include an amount to provide for reasonable reserves for future repair and replacement of Association assets. The Association has allocated budgeted amounts from each homeowner's monthly assessment to fund Replacement Reserve. The balance of reserves is maintained in separate bank accounts or investments, apart from Operating Fund accounts.

A reserve study was prepared in 2002 to estimate the remaining useful lives and the estimated replacement costs of the components of the Association's common property. During 2009 the board of directors updated the study. A portion of the homeowners' assessments are segregated for the replacement fund but may or may not prove to be insufficient at some future date to accomplish the goals of the fund. If an insufficiency were to arise, the Board may increase regular assessments, levy a special assessment or defer the project until funds are available.

STONEY BROOK HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 4 Retirement Plans

The Association has established a Simple IRA. Under the plan, employees who have received at least \$5,000 in compensation from the Association in any two preceding years are eligible to participate in the plan. A participant may elect under a deferral agreement to have a percentage of their compensation contributed to a Simple IRA. The participant's elective deferral cannot exceed \$10,500. Each year the Association shall make either a matching contribution or a non-elective contribution to the participants IRA. The matching contribution cannot exceed the lesser of the participant's elective deferral or three percent of the participant's compensation for the year. The non-elective contribution must be two percent of the compensation of each employee eligible to participate. Contributions for the year ended December 31, 2009 were \$5,837.

The Association adopted a non-qualified deferred compensation plan for a member of management. The Association's contribution is \$4,000 per year. The deferred compensation accounts are shown both as assets and liabilities on the Association's financial statements and are available to creditors in the event of the Association's liquidation.

The balance of the deferred compensation arrangement was \$7,892 as of December 31, 2009. Deferred compensation expense was \$4,000 for the year ended December 31, 2009.

Note 5 Subsequent Events

In accordance with the provisions set forth in ASC Topic 855 (formerly SFAS 165), Subsequent Events, adopted by the Association as of December 31, 2009, management has evaluated subsequent events existing in the Association's financial statements through January 25, 2010. Management has determined that there were no material subsequent events that would require recognition or additional disclosure in the Association's financial statements through this date.

STONE BROOK HOMEOWNERS' ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

OLSON, REYES & SAUERWEIN, LLC

CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Stoney Brook Homeowners' Association, Inc.
Denver, Colorado

Our report on our audit of the basic financial statements of Stoney Brook Homeowners' Association, Inc. at December 31, 2009 and for the year then ended appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The schedule of "Future Major Repairs and Replacements" on page 11 is not a required part of the basic financial statements of Stoney Brook Homeowners' Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted primarily 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.

Olson, Reyes & Sauerwein, LLC

Denver, Colorado
January 25, 2010

STONEY BROOK HOMEOWNERS' ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2009
(UNAUDITED)

In July 2002, an independent engineer conducted a study to estimate the remaining useful lives and estimate the replacement costs of the components of Stoney Brook Homeowners' Association, Inc.'s common areas. The study was updated in 2009 by the board of directors. Estimated current replacement costs are updated annually to reflect the current costs for all components used in the study. The Board of Directors is using the study to assist in setting the annual assessment to be dedicated to the Replacement Fund. In 2009 this amount was \$310,450.

The following is a summary of the study conducted in July 2002 including related changes developed from the board of directors' review and update in 2009:

<u>Components</u>	<u>Estimated Remaining Useful Lives (years)</u>	<u>Estimated Current Replacement Costs</u>
Landscape	1-29	\$ 118,000
Site improvements	1-23	502,240
Exterior painting	1-13	1,950,872
Operating equipment	1-37	109,600
Pool and tennis courts	1-18	99,062
Clubhouse and maintenance building	1-18	127,870
Ponds and streams	1-29	297,365
		<u>\$ 3,205,009</u>