

FOXCLIFF ESTATES SOUTH
HOMEOWNERS' ASSOCIATION

FINANCIAL STATEMENTS

For the Years Ended
December 31, 2009 (Reviewed) and 2008 (Audited)

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DONOVAN
Certified Public Accountants
and Advisors

ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members
Foxcliff Estates South Homeowners' Association
2085 Mapletown Road
Martinsville, Indiana 46151

We have reviewed the accompanying statements of assets, liabilities and equity – cash basis of Foxcliff Estates South Homeowners' Association (the Association) as of December 31, 2009 and the related statements of revenues and expenses, changes in members' equity and cash flows – cash basis for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of the Association.

A review consists primarily of inquiries of Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted accounting standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

The 2008 financial statements were audited by us, and we expressed an unqualified opinion on them in our report dated August 10, 2009. We have not performed any auditing procedures since that date.

DONOVAN

June 14, 2010

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
STATEMENTS OF ASSETS, LIABLITIES AND EQUITY - CASH BASIS
December 31, 2009 (Reviewed) and 2008 (Audited)

ASSETS

	<u>2009</u> <u>(Reviewed)</u>	<u>2008</u> <u>(Audited)</u>
Current assets:		
Designated:		
Cash in bank - tennis court reserve	\$ 1	\$ 9,839
Cash in bank - operational reserve	51,454	51,201
Cash in bank - swimming pool reserve	26,411	23,552
Cash in bank - drainage reserve	9,658	34,962
Cash in bank - road reserve	142,007	109,819
Cash in bank - clubhouse reserve	23,453	18,157
Cash in bank - unallocated interest	<u>1,466</u>	<u>1,382</u>
Total designated	254,450	248,912
Undesignated:		
Cash in bank	9,701	12,697
Cash in bank - construction bond	6,564	4,056
Cash in bank - other	-	431
Petty cash and other	<u>43</u>	<u>38</u>
Total undesignated	<u>16,308</u>	<u>17,222</u>
Total current assets	270,758	266,134
Property and equipment (Note 2):		
Roads	400,000	400,000
Lakes and common areas	398,650	350,000
Clubhouse facilities	343,737	330,273
Swimming pools	106,339	106,339
Furniture and fixtures	<u>21,027</u>	<u>21,028</u>
Total property and equipment	1,269,753	1,207,640
Accumulated depreciation	<u>(483,533)</u>	<u>(455,115)</u>
Net property and equipment	<u>786,220</u>	<u>752,525</u>
Total assets	<u>\$ 1,056,978</u>	<u>\$ 1,018,659</u>

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
 STATEMENTS OF ASSETS, LIABILITIES AND EQUITY - CASH BASIS
 December 31, 2009 (Reviewed) and 2008 (Audited)

LIABILITIES AND MEMBERS' EQUITY

	<u>2009</u> (Reviewed)	<u>2008</u> (Audited)
Current liabilities:		
Construction bond payable	\$ 6,500	\$ 4,000
Payroll liabilities	239	513
Clubhouse deposit	-	250
	6,739	4,763
Members' equity:		
Undesignated	848,778	817,567
Designated	201,461	196,329
	1,050,239	1,013,896
Total members' equity	1,050,239	1,013,896
Total liabilities and members' equity	\$ 1,056,978	\$ 1,018,659

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
 STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS
 For the Years Ended December 31, 2009 (Reviewed) and 2008 (Audited)

	2009 (Reviewed)	2008 (Audited)
Revenues:		
Homeowner and lot dues	\$ 197,800	\$ 178,850
Interest income	608	5,108
Advertising	605	2,155
Road usage fees	1,200	1,100
Vending machines	814	538
Office rentals	1,100	500
Clubhouse rentals	475	350
Miscellaneous income	323	152
Associate dues	300	125
Pool guest fees	242	115
Interest income - delinquencies	591	101
	<hr/>	<hr/>
Total revenue	204,058	189,094
Expenses:		
Clubhouse:		
Depreciation	9,525	11,906
Utilities	8,815	9,993
Maintenance and repair	3,415	2,890
	<hr/>	<hr/>
Total clubhouse expenses	21,755	24,789
Swimming pool and tennis courts:		
Maintenance	38,713	31,490
Depreciation	4,665	4,105
Supplies	1,437	900
Snack machine purchases	774	696
Miscellaneous	-	307
	<hr/>	<hr/>
Total swimming pool and tennis courts expense	45,589	37,498

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
 STATEMENTS OF REVENUE AND EXPENSES - CASH BASIS
 For the Years Ended December 31, 2009 (Reviewed) and 2008 (Audited)

	2009 <u>(Reviewed)</u>	2008 <u>(Audited)</u>
Office expenses:		
Salaries and wages	\$ 15,713	\$ 15,808
Communication costs	1,817	2,145
Payroll taxes	1,335	1,340
Supplies	876	1,511
Equipment rental	454	305
Mileage	403	448
Postage and freight	314	1,334
Miscellaneous office	277	518
Depreciation	118	197
Printing and reproduction	71	316
	<hr/>	<hr/>
Total office expenses	21,378	23,922
Other operating expenses:		
Common area maintenance and repair	37,992	49,613
Depreciation	14,110	11,218
Professional fees	9,351	6,062
Insurance	8,530	8,273
Property taxes	6,667	6,222
Newsletter	3,293	916
Social committee activities	1,600	1,548
Miscellaneous	250	5
Drainage study	-	27,300
Trade organization	-	434
Bank and other fees and interest	-	125
Recording fees	-	58
Sales tax and other taxes	-	6
Uncollectible accounts	-	-
Income taxes	(2,800)	4,337
	<hr/>	<hr/>
Total other operating expenses	78,993	116,117
	<hr/>	<hr/>
Total expenses	167,715	202,326
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Excess of revenue over expenses (expenses over revenue)	<u>\$ 36,343</u>	<u>\$ (13,232)</u>

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNER'S ASSOCIATION
STATEMENTS OF CHANGES IN MEMBERS' EQUITY - CASH BASIS
For the Years Ended December 31, 2009 (Reviewed) and 2008 (Audited)

2008 (Audited)			
	Undesignated	Designated for Future Repairs & Replacements	Total
Members' equity - January 1, 2008	\$ 874,985	\$ 152,143	\$ 1,027,128
Excess of revenue over expenses	(13,232)	-	(13,232)
Allocated to future repairs and replacements and operations:			
Road reserve	(31,278)	31,278	-
Drainage reserve	(2,928)	2,928	-
Pool reserve	(3,575)	3,575	-
Clubhouse reserve	(5,123)	5,123	-
Tennis court reserve	(1,282)	1,282	-
Members' equity - December 31, 2008	\$ 817,567	\$ 196,329	\$ 1,013,896
2009 (Reviewed)			
	Undesignated	Designated for Future Repairs & Replacements	Total
Members' equity - January 1, 2008	\$ 817,567	\$ 196,329	\$ 1,013,896
Excess of expenses over revenue	36,343	-	36,343
Allocated to future repairs and replacements and operations:			
Road reserve	(32,118)	32,118	-
Drainage reserve	25,304	(25,304)	-
Pool reserve	(2,859)	2,859	-
Clubhouse reserve	(5,296)	5,296	-
Tennis court reserve	9,837	(9,837)	-
Members' equity - December 31, 2008	\$ 848,778	\$ 201,461	\$ 1,050,239

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
STATEMENTS OF CASH FLOWS - CASH BASIS
For the Years Ended December 31, 2009 (Reviewed) and 2008 (Audited)

	<u>2009</u> (Reviewed)	<u>2008</u> (Audited)
Cash flows from operating activities:		
Excess of revenue over expenses (expenses over revenue)	\$ 36,343	\$ (13,232)
Adjustments to reconcile excess of revenue over expenses (expenses over revenue) to net cash provided by operating activities:		
Depreciation	28,418	27,426
Increase (decrease) in:		
Construction bond payable	2,500	(16,000)
Payroll tax liabilities	(273)	143
Clubhouse deposit	(250)	250
Net cash from operating activities	<u>66,738</u>	<u>(1,413)</u>
Cash flows from investing activities:		
Capital expenditures	<u>(62,114)</u>	<u>-</u>
Net increase (decrease) in cash	4,624	(1,413)
Cash at beginning of year	<u>266,134</u>	<u>267,547</u>
Cash at end of year	<u>\$ 270,758</u>	<u>\$ 266,134</u>
Supplemental cash flows disclosures:		
Income taxes paid	<u>\$ -</u>	<u>\$ 3,537</u>

See accountants' review report and notes to financial statements.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 1 - NATURE OF ORGANIZATION

Foxcliff Estates South Homeowners' Association (the Association) was incorporated on June 14, 1985, in the State of Indiana. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 413 lots, of which 401 are platted for residential use.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The Association's policy is to prepare its financial statements on the cash basis of accounting; consequently, dues and other revenues are recognized when received rather than when earned and certain expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred.

Members Assessments – Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The assessments are due by February 28th of each year. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. The Association also has the discretion to impose recreational assessments for the repair, maintenance and operation of the clubhouse, swimming pool and tennis courts; and, to levy special assessments for capital improvements or for other permitted purposes if approved by two-thirds of the voting membership. The Association, for use in the succeeding year, retains any excess assessments at year-end.

Income Taxes – Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2009 and 2008, the Association was taxed as a homeowners' association on Form 1120-H. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates. If the Association elects to be taxed as a homeowners' association, it is taxed on its non-exempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. The income taxes due and payable at December 31, 2009 and 2008 were \$-0- for the federal and state returns.

Property and Equipment – The Association's policy has been to expense all property it has acquired since the formation of the Association. However, these financial statements for the current years of 2009 and 2008 generally capitalize tangible assets so fixed assets can be properly classified accordingly to generally accepted accounting principles and depreciated. The property is valued at cost. Fixed assets contributed to the Association by the developer were recorded at estimated fair value at the date of contribution.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued) – Depreciation is provided using the straight-line and accelerated methods. Estimated lives of the assets are as follows:

Building	30 – 39 years
Leasehold improvements	10 – 40 years
Office equipment	5 – 7 years

Total depreciation for the years ended December 31, 2009 and 2008 was \$28,418 and \$27,426, respectively.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those assumptions affect the reported amounts of assets and liabilities and revenues and expenses. Accordingly, actual results could differ from those estimates.

Commercial Rentals – The Association has entered into a non-cancelable lease agreement with one commercial tenant with a lease term of one year. Rental income for the year ended December 31, 2009 was \$1,100 and the year ended December 31, 2008 was \$500.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Association considers monies held in checking, savings, money market funds, certificates of deposit, and any other short-term debt securities with a maturity of one year or less at the time of purchase to be cash equivalents.

Reclassifications - Certain accounts relating to the prior year have been restated to conform to current year's presentation. The reclassifications have no effect on net fund balances.

NOTE 3 - CONSTRUCTION BONDS

It is the policy of the Association to charge the homeowners/builders a \$4,000 refundable deposit during construction for the complete and proper construction of a new home. As of December 31, 2009 and 2008, there was \$6,500 and \$4,000 in "bond" money respectively due to homeowners/builders upon the completion of construction, assuming no damage was incurred. In addition, road usage fees are assessed, which are non-refundable and includable in income.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a professional study to determine the remaining useful lives of all the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. However, the Association has begun designating funds based on actual prior costs and estimates for the swimming pool, tennis court, roads, drainage, and clubhouse for the

See accountants' review report.

FOXCLIFF ESTATES SOUTH HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

current assets as shown on the balance sheet. Additionally, the Association has designated a sinking fund for operational reserves of \$51,454 and \$51,201 for the years ended December 31, 2009 and 2008, respectively. According to By-Laws II, these amounts are "for use when unexpected non-recurring expenditures are encountered and other monies are not available."

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances at several financial institutions located in central Indiana. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the balances in these accounts may be in excess of federally insured limits.

NOTE 6 - SUBSEQUENT EVENTS

The Association has evaluated all events to the balance sheet date of December 31, 2009, through June 14, 2010, which is the date these financial statements were issued, and have determined that there are no subsequent events that require disclosure under FASB Accounting Standards Codification Topic 855, *Subsequent Events*.