FOUNTAIN OF THE SUN
COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

(WITH INDEPENDENT AUDITOR'S REPORT)

AS OF

DECEMBER 31, 2009

AND FOR THE YEAR THEN ENDED

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fountain of the Sun Community Association
Mesa, Arizona

We have audited the accompanying statement of assets, liabilities and members' equity – modified cash basis of Fountain of the Sun Community Association (an Arizona Corporation), as of December 31, 2009, and the related statement of revenues, expenses and changes in members' equity – modified cash basis 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.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and members' equity of Fountain of the Sun Community Association as of December 31, 2009, and its revenues, expenses and changes in members' equity, for the year then ended, on the basis of accounting described in Note 2.

Butler, Jones & Hansen, P.C.

Mesa, Arizona
September 3, 2010

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	$ 53,346	$ 335,547	$ 388,893
Investments	-	130,890	130,890
Prepaid Insurance	2,917	-	2,917
Postage Inventory	8,938	-	8,938
Property and Equipment, Net of $1,011,284 Accumulated Depreciation	605,850	-	605,850
Total Assets	$ 671,051	$ 466,437	$ 1,137,488
LIABILITIES AND MEMBER'S EQUITY			
LIABILITIES			
Federal and State Unemployment	$ 213	$ -	$ 213
Total Liabilities	213	-	213
MEMBER'S EQUITY	670,838	466,437	1,137,275
Total Liabilities and Member's Equity	$ 671,051	$ 466,437	$ 1,137,488

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
FOSHA Assessment Income	$ 676,958	$ -	$ 676,958
Condominium Assessment Income	391,857	-	391,857
Sun Villa Apartments Income	24,968	-	24,968
FOSHA Lease Income	3,564	-	3,564
Chatterbox Lease Income	6,366	-	6,366
Room Rental Income	2,242	-	2,242
Counter Services	2,512	-	2,512
Counter Sales	769	-	769
Resident Sales Income	19,463	-	19,463
Sales Commissions	4,556	-	4,556
Legal Fee Reimbursement	662	-	662
Recycling	6,959	-	6,959
Vending Water Income	4,760	-	4,760
Activities Income	80,063	-	80,063
Miscellaneous Income	97	-	97
Stamp Sales Income	125,961	-	125,961
Post Office Income	12,663	-	12,663
Impact Fee	-	110,675	110,675
Interest Income	296	9,632	9,928
TOTAL REVENUES	1,364,716	120,307	1,485,023
EXPENSES			
General and Administrative	17,417	-	17,417
Taxes	9,876	-	9,876
Office Expenses	19,822	-	19,822
Insurance Expenses	36,286	-	36,286
Miscellaneous Sales Expenses	8,798	-	8,798
Depreciation Expense	86,223	-	86,223
Activities Expenses	67,884	-	67,884
Wages and Salary	255,136	-	255,136
Personnel Expenses and Taxes	49,521	-	49,521
Repairs and Maintenance	65,739	-	65,739
Equipment Expenses	21,687	-	21,687
Janitorial	40,343	-	40,343
Pool Expenses	43,540	-	43,540
Utilities	150,693	-	150,693
Grounds Maintenance	53,694	-	53,694
Security Expenses	320,766	-	320,766
Reserve Expenditures	-	45,831	45,831
Loss on Disposal of Asset	1,076	-	1,076
Cost of Goods Sold, Postage	125,961	-	125,961
TOTAL EXPENSES	1,374,462	45,831	1,420,293

(CONTINUED)

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY - MODIFIED CASH BASIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
EXCESS REVENUES (EXPENSES)	(9,746)	74,476	64,730
MEMBERS' EQUITY			
BEGINNING OF YEAR	751,468	321,077	1,072,545
TRANSFERS BETWEEN FUNDS			
Transfer Alltel Proceeds to Reserve	(71,521)	71,521	-
To Operations for Fixed Asset Acquisitions	36,637	(36,637)	-
To Reserves for Future Major Repairs	(36,000)	36,000	-
Net Transfers	(70,884)	70,884	-
MEMBERS' EQUITY			
END OF YEAR	$ 670,838	$ 466,437	$ 1,137,275

See accompanying notes to the financial statements.

NOTE 1 – ORGANIZATION

Fountain of the Sun Community Association, a non-stock, non-profit homeowners' association, was incorporated on November 10, 1983, under the general non-profit laws of the State of Arizona. The Association was established to provide management, maintenance and preservation of the common areas and other property owned by the Association, or property placed under its jurisdiction. The Association is located in Mesa, Arizona and consists of 2,359 units. There is a Board of Directors elected by the member homeowners.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association's general records and the accompanying financial statements are prepared using the modified cash method of accounting. A modification to the cash basis of accounting has been made to record prepaid liability insurance and postage inventory. In accordance with the modified cash basis of accounting, revenues (assessments and other income) are recognized when received rather than when earned, and expenses, with the exception of prepaid insurance and postage inventory are recognized when paid rather than when the obligation is incurred. Accordingly, accounts receivable due from homeowners, deferred revenues, and accrued expenses are not included in the financial statements.

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, using the following funds established according to their nature and purpose:

Operating Fund

The Operating Fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

The Replacement Fund is used to account for the accumulation of funds for future major repairs and replacements.

Cash and Cash Equivalents

The Association considers cash in operating bank accounts, money market accounts, cash on hand and investments, with original maturities of three months or less, as cash and cash equivalents. Certificates of deposit and financial instruments, with original maturities greater than three months, are classified as investments.

Investments

The Association's investment portfolio consists primarily of certificates of deposit. The Association's Board of Directors has resolved that all investments are intended to be held until maturity. In accordance with generally accepted accounting principles, any gain or loss in the fair market value of the securities subsequent to their purchase, is not recognized, unless a gain or loss is realized via the sale of any security(ies) prior to maturity. Also, any unrealized loss would be recognized in the event that the Board changed the designation of these investments to other than held-to-maturity.

Common Property

Certain property and land were contributed by the developer at no cost to the Association. The Association has not recorded these assets, and accordingly, no value has been established. The primary contributed property and land consists of landscape, landscape rights-of-way, block walls and entry monuments, which can never be sold or subdivided. The Association has not placed a value on these assets, and they are not reflected in the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment
The Association capitalizes all common 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 the basis of usage.

Property not capitalized consists of land, and landscape rights-of-way.

The Association capitalizes personal property, with a purchase price of $2,500 or more, and real property, with a purchase price of $5,000 or more, that it acquires. Purchased property and equipment is recorded at cost and depreciated utilizing the straight-line depreciation method over the useful lives of the property and equipment.

Fair Value of Financial Instruments
Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts.

Inventories
Inventories (from the Postal Center) are stated at the lower of cost or market using the first-in, first-out (FIFO) assumption.

Date of Management's Review
Subsequent events have been evaluated through September 3, 2010, which is the date the financial statements were available to be issued.

NOTE 3 – ANNUAL ASSESSMENTS AND EXPENSES

Fountain of the Sun Community Association (FOSCA) is the master association for the community known as Fountain of the Sun. FOSCA assesses each sub-association an annual amount of $453 for each unit within that Association, which is collected monthly. FOSCA also assesses the same fee to the owner of the Sun Villas apartments for occupied units; these assessment rates are prorated weekly and collected monthly. No maximum annual assessment per unit has been established. 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 4 – CONCENTRATION OF CREDIT RISK

The Association's annual assessment revenue is subject to a significant concentration of credit risk, given that the revenue is received primarily from members located within a small geographic area that can be adversely impacted by similar economic conditions.

The Association places its cash deposits and investments with various financial institutions. Checking and savings accounts are secured by the Federal Deposit Insurance Corporation (FDIC) coverage up to $250,000. As of December 31, 2009, the Association had $8,596 in cash balances in excess of FDIC coverage, or in accounts not covered by FDIC insurance.

NOTE 5 – INCOME TAXES

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2009. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations.

In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions. For federal and state income tax purposes, the Association is taxed on all net income from nonmembership activities, reduced only by losses from nonmembership activities, for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods.

Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated effective tax rates of 15% to 39% that are applied to net taxable income. The state tax rate that is applied to net taxable income is 6.98%. The Association had an estimated federal and state tax liability of $461 and $313, respectively, for the year ended December 31, 2009. Federal and state taxes disbursed for the year ended December 31, 2008, were $2,507 and $649, respectively.

NOTE 6 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is accumulating funds for future major repairs and replacements. The annual provision to the replacement fund is determined by the Board of Directors and is based, in part, on projected reserve expenses derived in a study dated October 27, 2004, by a licensed contractor who inspected the property. The study provides an estimate of the repair and replacement costs of buildings, improvements, equipment and common area infrastructure. The Board of Directors purchased software, which the Community Manager used to update the reserve study information in July of 2007.

The replacement fund represents funds restricted by the Board of Directors to meet these anticipated expenses. The replacement fund has been accumulated from homeowner assessments and impact fees, specifically assessed for the purpose of funding the replacement fund, and from other net revenues.

Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association may increase regular assessments, up to the maximum annual assessment, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available.

At December 31, 2009, funds accumulated for this purpose were $466,437.

NOTE 7 – RETIREMENT PLAN

Effective July 1, 1997, the Association established a retirement plan known as a Simple IRA Plan, for its employees. The plan provides for employee contributions of up to a maximum of $10,000 per year, and provides for an employer matching provision of dollar-for-dollar of employee contributions up to 3% of compensation. Total employer contributions to the plan in 2009 were $6,282. On October 28, 2009, the Board of Directors voted to reduce the IRA matching contribution to 1%.

NOTE 8 – PROPERTY AND EQUIPMENT

During the year ended December 31, 2009, the Association removed approximately $58,416 in previously capitalized assets from the depreciation schedule. The removal of these assets resulted in a loss of $1,076. Depreciable Property and Equipment in use, as of December 31, 2009, consisted of the following:

	2009
Property and Equipment:	
Building	$ 921,762
Improvements	322,580
Furniture and Fixtures	195,996
Machinery and Equipment	83,031
Vehicles	12,500
Miscellaneous	81,265
Total	1,617,134
Less: Accumulated Depreciation	(1,011,284)
Net Property and Equipment	$ 605,850

NOTE 9 - INVESTMENTS

The Association's investments consist primarily of certificate of deposits that the Board of Directors has indicated their intension to hold until maturity. The Association has financial resources adequate to achieve this intention and accordingly, as held-to-maturity investments, no unrealized gain or loss in security fair market value is recognized in years prior to maturity or sale. At December 31, 2009, the Association held two certificate of deposits valued at $58,489 and $72,401.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
Fountain of the Sun Community Association.
Mesa, Arizona

The supplementary information on future major repairs and replacements presented on page 10 is not a required part of the basic financial statements of Fountain of the Sun Community Association, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information, as prepared by an independent company. However, we did not audit the information and express no opinion on it.

Butler, Jones & Hansen, P.C.

Mesa, Arizona
September 3, 2010

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2009

The Association's board of directors engaged a firm to conduct a study to estimate the replacement costs of certain commc property components. The study was completed on October 27, 2004. The Board of Directors purchased software, which the Community Manager used to update the reserve information in July of 2007. The Community Manager used the stud completed in 2004, in preparing the study dated July 25, 2007, the results of which are outlined below. Replacement cost were based on the estimated costs to repair or replace the common property components at the date of the study. Estimate current replacement costs have not been revised since that date and do not take into account the effects of inflation betwee the date of the study and the date that the components will require repair or replacement.

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

Component	Remaining Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance December 31, 2009
Cabinets	10 to 20	$ 13,750	$ -
Carpet Flooring	0 to 15	80,927	-
Entrance Structure - Retile	0 to 8	16,500	-
Exercise Room	0 to 2	20,000	-
Furniture	2 to 10	160,300	-
HVAC	0 to 15	94,800	-
Major Renovation	0	108,000	-
Painting	1 to 8	54,170	-
Parking Lots	1 to 17	103,220	-
Pool	0 to25	79,125	-
Restroom Remodeling	0 to 10	17,000	-
Roofs	5 to 7	31,445	-
Shuffle Board Courts	4	7,200	-
Streets	0 to 21	1,175,321	-
Vehicles	1 to 8	25,500	-
Walls	3	7,600	-
Unallocated		-	466,437
Total		$ 1,994,858	$ 466,437

See independent auditor's report on supplementary information.