FOUNTAIN OF THE SUN
COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

(WITH INDEPENDENT AUDITOR'S REPORT)

AS OF

DECEMBER 31, 2010

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 balance sheet of Fountain of the Sun Community Association (an Arizona Corporation), as of December 31, 2010, and the related statements of revenues and 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 the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 Fountain of the Sun Community Association 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.

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property, on page 11, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Butler, Jones & Hansen, P.C.

Mesa, Arizona
August 9, 2011

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 63,961	$ 322,416	$ 386,377
Accounts Receivable	4,581	-	4,581
Prepaid Insurance	3,311	-	3,311
Postage Inventory	10,826	-	10,826
Total Current Assets	82,679	322,416	405,095
PROPERTY AND EQUIPMENT			
Property and Equipment, Net of Accumulated Depreciation of $1,097,272	571,621	-	571,621
Total Property and Equipment	571,621	-	571,621
Total Assets	$ 654,300	$ 322,416	$ 976,716
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES			
Accounts Payable	$ 7,208	$ -	$ 7,208
Accrued Expenses	22,411	-	22,411
Accrued Income Tax	1,954	-	1,954
Prepaid Assessments	5,668	-	5,668
Total Current Liabilities	37,241	-	37,241
Total Liabilities	37,241	-	37,241
FUND BALANCES			
Operating Fund	617,059	-	617,059
Replacement Fund	-	322,416	322,416
Total Fund Balances	617,059	322,416	939,475
Total Liabilities and Fund Balances	$ 654,300	$ 322,416	$ 976,716

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
FOSHA Assessment Income	$ 693,780	$ -	$ 693,780
Condominium Assessment Income	402,225	-	402,225
Sun Villa Apartments Income	18,942	-	18,942
FOSHA Lease Income	12	-	12
Chatterbox Lease Income	3,600	-	3,600
Room Rental Income	2,105	-	2,105
Counter Services	2,258	-	2,258
Counter Sales	982	-	982
Resident Sales Income	9,148	-	9,148
Sales Commissions	3,333	-	3,333
Recycling	6,503	-	6,503
Vending Water Income	4,557	-	4,557
Activities Income	76,855	-	76,855
Stamp Sales Income	128,936	-	128,936
Post Office Income	12,895	-	12,895
Impact Fee	-	122,348	122,348
Interest Income	-	4,117	4,117
Miscellaneous Income	186	-	186
TOTAL REVENUES	1,366,317	126,465	1,492,782
EXPENSES			
General and Administrative	42,282	-	42,282
Taxes	4,018	-	4,018
Office Expenses	24,759	-	24,759
Insurance Expenses	39,335	-	39,335
Miscellaneous Sales Expenses	3,166	-	3,166
Depreciation Expense	85,988	-	85,988
Activities Expenses	71,663	-	71,663
Wages and Salary	260,801	-	260,801
Personnel Expenses and Taxes	53,949	-	53,949
Repairs and Maintenance	54,046	-	54,046
Equipment Expenses	22,571	-	22,571
Janitorial	39,742	-	39,742
Pool Expenses	40,452	-	40,452
Utilities	140,709	-	140,709
Grounds Maintenance	47,004	-	47,004
Security Expenses	332,725	-	332,725
Reserve Expenditures	-	278,622	278,622
Cost of Goods Sold, Postage	128,936	-	128,936
TOTAL EXPENSES	1,392,146	278,622	1,670,768

(CONTINUED)

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
EXCESS REVENUES (EXPENSES)	(25,829)	(152,157)	(177,986)
FUND BALANCES			
BEGINNING OF YEAR, As Previously Stated	670,838	466,437	1,137,275
Prior Period Adjustment	(19,814)	-	(19,814)
BEGINNING OF YEAR, Restated	651,024	466,437	1,117,461
TRANSFERS BETWEEN FUNDS			
Contributions to Reserves	(56,400)	56,400	-
To Operations for Fixed Asset Acquisitions	48,264	(48,264)	-
Net Transfers	(8,136)	8,136	-
FUND BALANCES, END OF YEAR	$ 617,059	$ 322,416	$ 939,475

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess Revenues (Expenses)	$ (25,829)	$ (152,157)	$ (177,986)
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities			
Depreciation	85,988	-	85,988
Bad Debt Expense	14,575	-	14,575
(Increase)/Decrease In			
Assessments Receivable - Net	(8,418)	-	(8,418)
Postage Inventory	(1,888)	-	(1,888)
Prepaid Insurance	(394)	-	(394)
Increase/(Decrease) In			
Accounts Payable	(6,437)	-	(6,437)
Accrued Expenses	8,347	-	8,347
Unemployment Tax Payable	1,473	-	1,473
Prepaid Assessments	3,093	-	3,093
Net Cash Provided (Used) by Operating Activities	70,510	(152,157)	(81,647)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment	(3,495)	(48,264)	(51,759)
Purchase of Investments	-	(1,000)	(1,000)
Redemption of Investments	-	131,890	131,890
Net Cash Provided (Used) by Investing Activities	(3,495)	82,626	79,131
CASH FLOWS FROM FINANCING ACTIVITIES			
Allocation to Reserves	(56,400)	56,400	-
Net Cash Provided (Used) by Financing Activities	(56,400)	56,400	-
NET INCREASE (DECREASE) IN CASH	10,615	(13,131)	(2,516)
CASH BALANCE, BEGINNING OF YEAR	53,346	335,547	388,893
CASH BALANCE, END OF YEAR	$ 63,961	$ 322,416	$ 386,377

SUPPLEMENTARY INFORMATION

Income Taxes Paid	$ 2,366
Interest Paid	-

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

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
For purposes of the statement of cash flows, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturities of three months or less, as cash and cash equivalents.

Investments
Certificates of deposit and/or other securities, purchased with original maturity dates greater than three months, are classified as investments. The Association's policy is to invest in cash, money market funds, and certificates of deposit, with a reasonable effort to preserve capital, maximize return, and minimize loss. Investments in debt securities are initially recorded at cost. Debt securities classified as held to maturity are reported at their amortized cost.

Assessments Collected in Advance
Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Association.

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)

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) method.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Accordingly, actual results could differ from those estimates. Estimates for the allowance for receivables are based on the Allowance Method.

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.

Date of Management's Review
Subsequent events have been evaluated through August 9, 2011, 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 $465 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 and related receivables are subject to significant concentrations 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 financial instruments that potentially subject the Association to credit risk consist principally of assessments receivable, the majority of which contain provisions for recovery by placing liens on real property and through legal judgments. In the event that owners do not comply with the terms of the Covenants, Conditions and Restrictions, and collection efforts by the Association are unsuccessful, the Association could incur a loss equal to the amount due.

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), or other types of insurance programs.

NOTE 5 – RECEIVABLES

Accounts receivable at December 31, 2010, represents assessments due. Accounts Receivable greater than 90 days overdue at December 31, 2010, was $0. For the year ended December 31, 2010, no allowance for doubtful accounts was provided based on the receivables being brought current. Bad debt expense was $14,575, for the year ended December 31, 2010.

Receivables consisted of the following at December 31, 2010:

	Total Due	Over 90 Days
Condo Assessment Parcel 10-1 Fairway Village	$ 2,829	$ -
Sun Villa Apartment Income	1,752	-
Total Gross Receivables	4,581	-
Less: Allowance for Bad Debt	-	-
Total Net Receivables	$ 4,581	$ -

NOTE 6 – 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 2010 were $2,254. On October 28, 2009, the Board of Directors voted to reduce the IRA matching contribution to 1%. In 2010, the Board voted to continue the 1% match through 2011, and to return the contribution match to 3% in 2012.

NOTE 7 – 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, 2010. 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 $0 and $50, respectively, for the year ended December 31, 2010. Federal and state taxes disbursed in the current year for the previous year were $2,305 and $61, respectively.

NOTE 8 – 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, 2010, funds accumulated for this purpose were $322,416.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2010, the Board of Directors of the Association adopted the accrual basis of accounting, versus the cash basis of accounting. The change was made, because the Board of Directors believes that the accrual basis of accounting more accurately reflects the financial transactions of the Association. Accordingly, an adjustment in the amount of $19,814 was made to restate the beginning of year fund balances.

NOTE 10 – PROPERTY AND EQUIPMENT

During the year ended December 31, 2010, the Association added approximately $51,759 of capitalized assets to the depreciation schedule. Depreciable Property and Equipment in use, as of December 31, 2010, consisted of the following:

	2010
Property and Equipment:	
Building	$ 921,762
Improvements	365,677
Furniture and Fixtures	195,996
Machinery and Equipment	89,022
Vehicles	12,500
Miscellaneous	83,936
Total	1,668,893
Less: Accumulated Depreciation	(1,097,272)
Net Property and Equipment	$ 571,621

SUPPLEMENTARY INFORMATION

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS - UNAUDITED
DECEMBER 31, 2010

The Association's board of directors engaged a firm to conduct a study to estimate the replacement costs of certain common 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 study completed in 2004, in preparing the study dated July 25, 2007, the results of which are outlined below. Replacement costs were based on the estimated costs to repair or 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 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, 2010
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 to 25	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		-	322,416
Total		$ 1,994,858	$ 322,416

See Independent Auditor's Report.