

THE M.P.R. HOMEOWNERS ASSOCIATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

(WITH INDEPENDENT AUDITOR'S REPORT)

AS OF

DECEMBER 31, 2007

AND FOR THE YEAR THEN ENDED

THE M.P.R. HOMEOWNERS ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The M.P.R. Homeowners Association
Phoenix, Arizona

We have audited the accompanying balance sheet of The M.P.R. Homeowners Association as of December 31, 2007, 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 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 balance sheet of The M.P.R. Homeowners Association as of December 31, 2007, and its revenues, expenses, changes in fund balances and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Butler, Jones & Hansen, P.C.

Mesa, Arizona
March 11, 2008

**THE M.P.R. HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2007**

| | <u>Operating Funds</u> | | | <u>Reserve Replacement Fund</u> | <u>Total</u> |
|--|---------------------------|--|-------------------------|---|---------------------|
| | <u>Operating Fund</u> | <u>Special Designations Fund</u> | <u>Capital Fund</u> | | |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 208,008 | \$ - | \$ - | \$ 200,200 | \$ 408,208 |
| Accounts Receivable, net of allowance of \$22,338 | 33,892 | - | - | - | 33,892 |
| Interest Receivable | 5,804 | - | - | 21,434 | 27,238 |
| Prepaid Expenses | 29,757 | - | - | - | 29,757 |
| Short-Term Investments | 546,253 | - | - | 1,623,687 | 2,169,940 |
| Total Current Assets | <u>823,714</u> | <u>-</u> | <u>-</u> | <u>1,845,321</u> | <u>2,669,035</u> |
| PROPERTY AND EQUIPMENT | | | | | |
| Property and Equipment | - | - | 2,851,065 | - | 2,851,065 |
| Less: Accumulated Depreciation | - | - | 1,641,201 | - | 1,641,201 |
| Total Property and Equipment | <u>-</u> | <u>-</u> | <u>1,209,864</u> | <u>-</u> | <u>1,209,864</u> |
| OTHER ASSETS | | | | | |
| Long-Term Investments | 501,452 | - | - | 425,096 | 926,548 |
| Utility Deposits | 2,000 | - | - | - | 2,000 |
| Total Other Assets | <u>503,452</u> | <u>-</u> | <u>-</u> | <u>425,096</u> | <u>928,548</u> |
| TOTAL ASSETS | <u>\$ 1,327,166</u> | <u>\$ -</u> | <u>\$ 1,209,864</u> | <u>\$ 2,270,417</u> | <u>\$ 4,807,447</u> |
| LIABILITIES & FUND BALANCES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable | \$ 36,114 | \$ - | \$ - | \$ - | \$ 36,114 |
| Accrued Expenses | 32,725 | - | - | - | 32,725 |
| Income Taxes Payable | 7,879 | - | - | - | 7,879 |
| Prepaid Owner Assessments | 427,180 | - | - | - | 427,180 |
| Total Current Liabilities | <u>503,898</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>503,898</u> |
| FUND BALANCES | | | | | |
| Total Fund Balances | <u>823,268</u> | <u>-</u> | <u>1,209,864</u> | <u>2,270,417</u> | <u>4,303,549</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,327,166</u> | <u>\$ -</u> | <u>\$ 1,209,864</u> | <u>\$ 2,270,417</u> | <u>\$ 4,807,447</u> |

See accompanying notes to the financial statements.

**THE M.P.R. HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Operating Funds | | | Reserve Replacement Fund | Total |
|---|-------------------|---------------------------------|---------------------|--------------------------------|---------------------|
| | Operating Fund | Special Designations Fund | Capital Fund | | |
| REVENUES | | | | | |
| Homeowner Assessments | \$ 1,587,828 | \$ - | \$ - | \$ - | \$ 1,587,828 |
| Commercial Assessments | 343,068 | - | - | - | 343,068 |
| Developer Assessments | 759 | - | - | - | 759 |
| Service, Transfer, & Other Fees | 157,253 | - | - | - | 157,253 |
| Investment Income | 59,139 | - | - | 106,057 | 165,196 |
| Lease Income | - | 24,500 | - | - | 24,500 |
| Other Income | 23,883 | - | - | - | 23,883 |
| Total Revenues | 2,171,930 | 24,500 | - | 106,057 | 2,302,487 |
| EXPENSES | | | | | |
| Operating | 1,220,338 | - | - | - | 1,220,338 |
| Administrative | 547,258 | - | - | 40 | 547,298 |
| Depreciation | - | - | 105,923 | - | 105,923 |
| Designated Unrestricted Expenditures | - | 120,907 | - | - | 120,907 |
| Major Repairs and Replacements | - | - | - | 191,169 | 191,169 |
| Total Expenses | 1,767,596 | 120,907 | 105,923 | 191,209 | 2,185,635 |
| EXCESS (DEFICIT) OF REVENUES OVER EXPENSES | 404,334 | (96,407) | (105,923) | (85,152) | 116,852 |
| FUND BALANCES, Beginning of Year | 879,773 | - | 1,290,837 | 2,016,087 | 4,186,697 |
| FUND BALANCES TRANSFERS | | | | | |
| Capitalized Fixed Asset Transfers | (21,432) | - | 24,950 | (3,518) | - |
| Allocation to Reserves | (343,000) | - | - | 343,000 | - |
| Special Designated Expenditures | (96,407) | 96,407 | - | - | - |
| FUND BALANCES, End of Year | \$ 823,268 | \$ - | \$ 1,209,864 | \$ 2,270,417 | \$ 4,303,549 |

See accompanying notes to the financial statements.

**THE M.P.R. HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Operating Funds</u> | | | | <u>Total</u> |
|--|---------------------------|--|-------------------------|---|-----------------------|
| | <u>Operating Fund</u> | <u>Special Designations Fund</u> | <u>Capital Fund</u> | <u>Reserve Replacement Fund</u> | |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | | |
| Excess (Deficit) of Revenues Over Expenses | \$ 404,334 | \$ (96,407) | \$ (105,923) | \$ (85,152) | \$ 116,852 |
| Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Cash Provided (Used) by Operating Activities: | | | | | |
| Depreciation | - | - | 105,923 | - | 105,923 |
| Bad Debt Expense/Change in Allowance | 11,954 | - | - | - | 11,954 |
| Investment Income | 26,546 | - | - | 26,141 | 52,687 |
| (Increase)/Decrease In: | | | | | |
| Accounts Receivable | (34,919) | - | - | - | (34,919) |
| Interest Receivable | (1,247) | - | - | (8,582) | (9,829) |
| Prepaid Expenses | (18,698) | - | - | - | (18,698) |
| Increase/(Decrease) In: | | | | | |
| Accounts Payable | (16,042) | - | - | - | (16,042) |
| Accrued Expenses | (4,518) | - | - | - | (4,518) |
| Income Taxes Payable | 7,879 | - | - | - | 7,879 |
| Deferred Revenue | 714 | - | - | - | 714 |
| Net Cash Provided (Used) by Operating Activities | <u>376,003</u> | <u>(96,407)</u> | <u>-</u> | <u>(67,593)</u> | <u>212,003</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | | |
| Purchases of Investments | (2,190,319) | - | - | (1,778,220) | (3,968,539) |
| Proceeds from Maturity of Investments | 1,795,597 | - | - | 1,688,242 | 3,483,839 |
| Purchase of Property & Equipment | - | - | (24,950) | - | (24,950) |
| Net Cash (Used) by Investing Activities | <u>(394,722)</u> | <u>-</u> | <u>(24,950)</u> | <u>(89,978)</u> | <u>(509,650)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | | | |
| Capitalized Fixed Asset Transfers | (21,432) | - | 24,950 | (3,518) | - |
| Allocation to Reserves | (343,000) | - | - | 343,000 | - |
| Special Designated Expenditures | (96,407) | 96,407 | - | - | - |
| Net Cash Provided (Used) by Financing Activities | <u>(460,839)</u> | <u>96,407</u> | <u>24,950</u> | <u>339,482</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | (479,558) | - | - | 181,911 | (297,647) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>687,566</u> | <u>-</u> | <u>-</u> | <u>18,289</u> | <u>705,855</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 208,008</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 200,200</u> | <u>\$ 408,208</u> |
| <u>SUPPLEMENTARY INFORMATION</u> | | | | | |
| Income Taxes Paid | \$ 33,593 | | | | |
| Interest Expense | \$ - | | | | |

See accompanying notes to the financial statements.

THE M.P.R. HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - NATURE OF THE ORGANIZATION

The M.P.R. Homeowners Association is a nonprofit homeowner association incorporated on June 28, 1984. The Association provides for the operation, maintenance and preservation of facilities, property and common areas within a residential development. The Association is managed by paid staff with oversight and policy making conducted by the Board of Directors. The Board of Directors also approves and implements an annual financial budget from which the Association operates. Each year the actual operating results are compared to budgeted amounts. At December 31, 2007, the Association consisted of 5,811 residential lots, 39 commercial lots, and 5 apartment complexes on approximately 2,700 acres in the city of Phoenix, Arizona.

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.

Capital Fund

The Capital Fund is used to account for financial transactions for the common property and equipment owned by the Association for the benefit of all members.

Other Funds

The Association also maintains a Reserve Replacement Fund and a Special Designations Fund. The Reserve Replacement Fund is used to account for the accumulation of funds for future major repairs and replacements. The Special Designations fund is used to account for Operating fund balances designated for special expenditures.

Member Assessments

Association members are subject to assessments used to provide funds for operating expenses and major repairs and future replacements. For the year ended December 31, 2007, annual assessments were designated for operating expenses and funding for future major repairs and replacements. Annual assessments for the Association's 7,007 billable units for the year ended December 31, 2007, included: residential assessments of \$276 per unit billed semi-annually in the amount of \$138; undeveloped lot assessments which are billed at 25% of the residential assessment rate on a semi-annual basis; commercial assessments of \$276 per unit, based on acreage, billed on a monthly basis (1,196 billable units at December 31, 2007); and apartment complex assessments of \$276 per unit billed monthly in the amount of \$23. Any excess assessments at year-end are retained by the Association for use in future years.

Property and Equipment

The Association capitalizes all common property replacements and equipment to which it has title or other evidence of ownership with a cost basis of \$1,000 or more with the exception of certain real property. Common real property not capitalized consists of land, landscape, and landscape rights-of-way. Property and equipment is recorded at cost and depreciated utilizing the straight line method over the estimated useful lives of the property, which generally range from 5 to 40 years.

THE M.P.R. HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements, in accordance with generally accepted accounting principles, 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. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For statement of cash flow purposes, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit with original maturity dates of 90 days or less as cash and cash equivalents.

Investments

Certificates of deposit with original maturity dates greater than 90 days that mature in less than one year are classified as short-term investments. Investments with remaining maturity dates exceeding one year are classified as long-term investments.

Common Property

Certain land areas contributed by the developer upon completion of the project, at no cost to the Association, are not reflected in the financial statements. The contributed areas consist of certain parcels of land, landscape, and landscape rights-of-way which can not be sold or subdivided unless the Board and seventy-five percent of the members agree to a dedication or transfer of such property to a public agency, authority, or utility.

Fair Value of Financial Instruments

Unless otherwise indicated, 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.

NOTE 3 – RECEIVABLES

Interest receivable totaled \$27,238 for the year ended December 31, 2007. Accounts Receivable at December 31, 2007, represents assessments due, late fees charged on overdue accounts, and other fees levied by the Association. At December 31, 2007, gross accounts receivable was \$56,230, the allowance for doubtful accounts was \$22,338, and the net accounts receivable balance was \$33,892. Receivables greater than 90 days past due at December 31, 2007 totaled \$26,134. The Association's assessments receivable are secured via the real property assessed and every reasonable effort is applied in attempting to collect receivables. However, some receivables have historically proven to be uncollectible. The Association may bring legal action against owners obligated to pay, or foreclose on the property as it deems necessary, to collect assessments receivable.

NOTE 4 - INVESTMENTS

The Association's investments consist of certificates of deposit with maturity dates ranging from January 2008 through December 2010 and interest rates ranging from 4.60% to 5.40%. The carrying value, which approximates both cost and fair value of investments, at December 31, 2007, was as follows:

| | |
|---|---------------------|
| Short-term: (25) Certificates of Deposit maturing in 2008 | \$ 2,169,940 |
| Long-term: (10) Certificates of Deposit maturing through December 2010: | <u>926,548</u> |
| | <u>\$ 3,096,488</u> |

**THE M.P.R. HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2007, consisted of the following:

| | 2007 |
|---|---------------------|
| Land | \$ 240,000 |
| Recreation Centers (3) | 1,538,352 |
| Lakes (4) | 300,000 |
| Entry Monuments | 477,626 |
| Recreation Furniture & Fixtures | 67,621 |
| Vehicles | 36,902 |
| Machinery and Equipment | 14,771 |
| Infrastructure Major Repairs & Replacements | 111,733 |
| Office Equipment and Furniture | 46,659 |
| Software | 2,490 |
| Leasehold Improvements | 14,911 |
| | 2,851,065 |
| Less: Accumulated Depreciation | (1,641,201) |
| Net Book Value | <u>\$ 1,290,864</u> |

Depreciation expense for 2007 was \$105,923.

NOTE 6 - 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, 2007. 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 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.

For state income tax purposes, the Association is also 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. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 6.98%. The Association's federal and state income tax expenses were \$22,783 and \$7,096, respectively, for the year ended December 31, 2007.

**THE M.P.R. HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENT COSTS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated reserve replacement funds are generally not available for operating purposes.

The Board of Directors engaged an independent engineering firm, which conducted a full reserve study dated May 30, 2006, to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. The balance of funds for future major repairs and replacements aggregated to approximately \$2,270,417 at December 31, 2007.

Using the 2006 study present values, the reserve replacement fund balance of \$2,270,417 at December 31, 2007, approximates 21% of the estimated fully funded balance of the 30 year costs of \$11,056,242 and 101% of the recommended funded balance at December 31, 2007 of \$2,248,367. Actual expenditures, however, may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repair and replacements until funds are available.

NOTE 8 - FUND BALANCE TRANSFERS

During 2007, the Association transferred \$343,000 from the Operating Fund to the Reserve Replacement Fund and \$21,432 from the Operating to the Capital Fund. Funds in the amount of \$96,407 were also transferred from the Operating Fund to the Special Designations Fund. The Capital Fund, maintained by the Association, accounts for the purchases and disposal of property and equipment capitalized by the Association. During the year ended December 31, 2007, the Association purchased \$24,950 of capitalized fixed assets with \$21,432 of operating and \$3,518 of reserve funds. The value of these assets was transferred to the Capital Fund for future accounting purposes.

NOTE 9 - OPERATING LEASE COMMITMENT

The Association leases office space under an operating lease expiring in 2011. Minimum future lease payments under the noncancellable operating lease are as follows:

| Years Ending <u>December 31,</u> | |
|--------------------------------------|-------------------|
| 2008 | \$ 25,950 |
| 2009 | 26,700 |
| 2010 | 27,450 |
| 2011 | <u>28,200</u> |
| Total minimum future rental payments | <u>\$ 108,300</u> |

Rent expense for the office space, for the year ended December 31, 2007, was \$29,601.

**THE M.P.R. HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

The financial instruments that potentially subject the Association to credit risk consist principally of cash deposits in bank accounts, investments and assessments receivable. In the event that the property owners did not comply with the terms of the Covenants, Conditions and Restrictions, and collection efforts by the Association were unsuccessful, the Association could incur a loss equal to the amount due. The Association has net member assessments receivable at December 31, 2007, totaling \$33,892, which are subject to a significant concentration of risk given that the revenue is received primarily within a small geographic area that can be adversely impacted by similar economic conditions.

The Association holds cash deposits with several financial institutions. As discussed in Note 2, certificates having maturities of less than 90 days are classified as cash and cash equivalents. Certificates with maturities greater than 90 days, but less than one year, are classified as short-term investments as discussed in Note 4. Checking and savings accounts with banks are secured by Federal Deposit Insurance Corporation (FDIC) coverage up to \$100,000 at each bank. The broker provides that investments are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation (SIPC). At December 31, 2007, the Association had \$210,964 in cash and cash equivalent deposits at these institutions that exceeded the coverage by the FDIC or the SIPC.

The accounts held with the two brokerage firms also include certificates of deposit with varying maturity dates. The certificates of deposit are insured up to \$100,000 per institution by the FDIC under Certificate of Deposit Registry Service (CDARS) programs. The CDARS program allows the participating financial institution to make deposits in multiple banks with FDIC coverage to ensure that the investments do not exceed the \$100,000 per account, per bank. The Association had \$0 in funds in excess of the FDIC coverage for these certificates of deposit as of December 31, 2007. If the organization changes its investment strategy with these certificates of deposit, it could expose additional investments to concentration risk.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
The M.P.R. Homeowners Association
Phoenix, Arizona

Our report, dated March 11, 2008, on our audit of the basic financial statements of The M.P.R. Homeowners Association appears on page 1. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary statement of revenues, expenses, and changes in fund balances for the year ended December 31, 2007 appearing on pages 11 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The information on future repairs and replacements presented on page 14 is not a required part of the basic financial statements of The M.P.R. Homeowners Association, 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 as prepared by an independent company. However, we did not audit the information and express no opinion on it.



Mesa, Arizona
March 11, 2008

**THE M.P.R. HOMEOWNERS ASSOCIATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | Operating Funds | | | Reserve Replacement Fund | Total |
|---|-------------------|---------------------------------|-----------------|--------------------------------|------------------|
| | Operating Fund | Special Designations Fund | Capital Fund | | |
| REVENUES | | | | | |
| Homeowner Assessments | \$ 1,587,828 | \$ - | \$ - | \$ - | \$ 1,587,828 |
| Commercial Assessments | 343,068 | - | - | - | 343,068 |
| Undeveloped Lot Assessments | 759 | - | - | - | 759 |
| Late Fee Income | 24,816 | - | - | - | 24,816 |
| Administrative Fee Income | 2,740 | - | - | - | 2,740 |
| Fine Income | 8,460 | - | - | - | 8,460 |
| Legal Fees Reimbursement | 3,481 | - | - | - | 3,481 |
| Collection Cost Reimbursement | 17,025 | - | - | - | 17,025 |
| Recreation Keys Income | 8,835 | - | - | - | 8,835 |
| Escrow Fee Income | 85,010 | - | - | - | 85,010 |
| Miscellaneous Income | 6,886 | - | - | - | 6,886 |
| Investment Income | 59,139 | - | - | 106,057 | 165,196 |
| Special Designated - Lease Income | - | 24,500 | - | - | 24,500 |
| Insurance Reimbursement | 23,883 | - | - | - | 23,883 |
| TOTAL REVENUE | 2,171,930 | 24,500 | - | 106,057 | 2,302,487 |
| EXPENSES | | | | | |
| GENERAL & ADMINISTRATIVE | | | | | |
| Administrative Wages & Salaries | 239,457 | - | - | - | 239,457 |
| Administrative Payroll | 53,377 | - | - | - | 53,377 |
| Advertising Expense | 1,891 | - | - | - | 1,891 |
| Assessment Collection Costs | 11,837 | - | - | - | 11,837 |
| Bad Debt Expense | 16,000 | - | - | - | 16,000 |
| Bank & Finance Charges | 428 | - | - | 40 | 468 |
| Billing Expense | 3,356 | - | - | - | 3,356 |
| Office Cleaning Service | 1,375 | - | - | - | 1,375 |
| Community Events | 3,496 | - | - | - | 3,496 |
| Computer Support | 6,214 | - | - | - | 6,214 |
| Contract Labor - Office | 103 | - | - | - | 103 |
| Conventions & Seminars | 968 | - | - | - | 968 |
| Dues & Subscriptions | 815 | - | - | - | 815 |
| Education & Training | 2,403 | - | - | - | 2,403 |
| Provision for Income Taxes | 30,392 | - | - | - | 30,392 |
| Insurance | 47,169 | - | - | - | 47,169 |
| Legal Fees - CC&R Enforcement | 5,217 | - | - | - | 5,217 |
| Meeting Expense | 2,831 | - | - | - | 2,831 |
| Newsletter | 9,817 | - | - | - | 9,817 |
| Office Supplies & Equipment | 12,704 | - | - | - | 12,704 |
| Office Telecommunications | 2,270 | - | - | - | 2,270 |
| Office Telephone | 5,176 | - | - | - | 5,176 |
| General Office Expense | 2,386 | - | - | - | 2,386 |
| Payroll Services | 3,241 | - | - | - | 3,241 |
| Permits & Licenses | 561 | - | - | - | 561 |
| Postage | 21,414 | - | - | - | 21,414 |
| Printing | 6,065 | - | - | - | 6,065 |
| Professional Fees | 12,777 | - | - | - | 12,777 |
| Rent Expense - Office | 29,601 | - | - | - | 29,601 |
| Storage Expense | 1,723 | - | - | - | 1,723 |
| Travel Expense | 7,707 | - | - | - | 7,707 |
| Office Utilities | 2,833 | - | - | - | 2,833 |
| Web Site Expense | 1,654 | - | - | - | 1,654 |
| Total General & Administrative | 547,258 | - | - | 40 | 547,298 |

See accountants' report.

(CONTINUED)

**THE M.P.R. HOMEOWNERS ASSOCIATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Operating Funds</u> | | | <u>Reserve Replacement Fund</u> | <u>Total</u> |
|------------------------------------|---------------------------|--|-------------------------|---|----------------|
| | <u>Operating Fund</u> | <u>Special Designations Fund</u> | <u>Capital Fund</u> | | |
| COMMON AREAS | | | | | |
| Erosion Control | 25,000 | - | - | - | 25,000 |
| Fertilizer, Seed & Chemicals | 28,818 | - | - | - | 28,818 |
| Landscape Contract | 420,749 | - | - | - | 420,749 |
| Non-contract Landscape Expense | 14,204 | - | - | - | 14,204 |
| Pest Control | 4,363 | - | - | - | 4,363 |
| Plant & Tree Replacement | 15,637 | - | - | - | 15,637 |
| Trash Removal Fees | 13,450 | - | - | - | 13,450 |
| Sprinkler Parts & Repairs | 27,742 | - | - | - | 27,742 |
| Stucco Walls Repairs & Maintenance | 17,805 | - | - | - | 17,805 |
| Tree & Palm Maintenance | 82,797 | - | - | - | 82,797 |
| Water & Sewer - Common Areas | 116,595 | - | - | - | 116,595 |
| Electric - Common Areas | 8,412 | - | - | - | 8,412 |
| Tree Removal | 1,700 | - | - | - | 1,700 |
| View Fence Repairs & Maintenance | 12,468 | - | - | - | 12,468 |
| Total Common Areas | <u>789,740</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>789,740</u> |
| RECREATION CENTERS | | | | | |
| Pool & Spa Chemicals | 17,650 | - | - | - | 17,650 |
| Pool Monitor's Wages | 40,184 | - | - | - | 40,184 |
| Pool Monitor Overhead | 5,421 | - | - | - | 5,421 |
| Pool Monitor Uniforms & Training | 1,518 | - | - | - | 1,518 |
| Lighting Maintenance & Repair | 3,013 | - | - | - | 3,013 |
| Pool & Spa Heat | 43,779 | - | - | - | 43,779 |
| Gate Security | 4,760 | - | - | - | 4,760 |
| Tennis Courts | 1,946 | - | - | - | 1,946 |
| Recreation Center Pay Phones | 5,725 | - | - | - | 5,725 |
| Pool Operator Permit Fees | 736 | - | - | - | 736 |
| E-Keys & Tennis Court Keys | 7,592 | - | - | - | 7,592 |
| Recreation Center Electricity | 24,084 | - | - | - | 24,084 |
| Recreation Center Water & Sewer | 64,028 | - | - | - | 64,028 |
| Pool Parts & Repairs | 13,948 | - | - | - | 13,948 |
| Building Parts & Repairs | 3,472 | - | - | - | 3,472 |
| Total Recreation Centers | <u>237,856</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>237,856</u> |
| GENERAL MAINTENANCE | | | | | |
| General Repairs & Maintenance | 4,862 | - | - | - | 4,862 |
| Maintenance Supplies | 6,456 | - | - | - | 6,456 |
| Maintenance Payroll Overhead | 23,794 | - | - | - | 23,794 |
| Maintenance Wages & Salaries | 82,242 | - | - | - | 82,242 |
| Small Signs | 1,965 | - | - | - | 1,965 |
| Small Tools & Equipment | 521 | - | - | - | 521 |
| Special Projects | 30,949 | - | - | - | 30,949 |
| Telephone-Maintenance | 1,799 | - | - | - | 1,799 |
| Vehicle Fuel | 2,401 | - | - | - | 2,401 |
| Common Area Security | 23,910 | - | - | - | 23,910 |
| Vehicle Repairs & Maintenance | 813 | - | - | - | 813 |
| Total General Maintenance | <u>179,712</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>179,712</u> |

See accountants' report.

(CONTINUED)

**THE M.P.R. HOMEOWNERS ASSOCIATION
SUPPLEMENTARY STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

| | <u>Operating Funds</u> | | | | <u>Total</u> |
|---|---------------------------|--|-------------------------|---|---------------------|
| | <u>Operating Fund</u> | <u>Special Designations Fund</u> | <u>Capital Fund</u> | <u>Reserve Replacement Fund</u> | |
| LAKES | | | | | |
| Lake Maintenance Contract | 7,200 | - | - | - | 7,200 |
| Lake Equipment Parts & Repairs | 4,503 | - | - | - | 4,503 |
| Lake Supplies | 1,327 | - | - | - | 1,327 |
| Total Lakes | <u>13,030</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,030</u> |
| DEPRECIATION | - | - | 105,923 | - | 105,923 |
| SPECIAL DESIGNATIONS | | | | | |
| Granite | - | 5,707 | - | - | 5,707 |
| Erosion | - | 60,000 | - | - | 60,000 |
| Recreation Video Security | - | 6,285 | - | - | 6,285 |
| Tree Maintenance | - | 7,386 | - | - | 7,386 |
| Asphalt Resurfacing | - | 37,915 | - | - | 37,915 |
| Fountain, Trash, & Miscellaneous | - | 3,614 | - | - | 3,614 |
| Total Special Designations | <u>-</u> | <u>120,907</u> | <u>-</u> | <u>-</u> | <u>120,907</u> |
| MAJOR REPAIRS & REPLACEMENTS | | | | | |
| Landscape Improvements | - | - | - | 18,923 | 18,923 |
| Monuments | - | - | - | 74,093 | 74,093 |
| Common Area Trash Receptacles | - | - | - | 4,479 | 4,479 |
| Concrete Benches & Table Tops | - | - | - | 841 | 841 |
| Recreation Center Light Maintenance | - | - | - | 14,175 | 14,175 |
| Pool Repairs | - | - | - | 75,521 | 75,521 |
| Playground Equipment | - | - | - | 3,137 | 3,137 |
| Total Major Repairs & Replacements | <u>-</u> | <u>-</u> | <u>-</u> | <u>191,169</u> | <u>191,169</u> |
| TOTAL EXPENSES | <u>1,767,596</u> | <u>120,907</u> | <u>105,923</u> | <u>191,209</u> | <u>2,185,635</u> |
| EXCESS REVENUES (EXPENSES) | 404,334 | (96,407) | (105,923) | (85,152) | 116,852 |
| FUND BALANCES, Beginning of Year | 879,773 | - | 1,290,837 | 2,016,087 | 4,186,697 |
| FUND BALANCE TRANSFERS | | | | | |
| Capitalized Fixed Asset Transfers | (21,432) | - | 24,950 | (3,518) | - |
| Allocation to Reserves | (343,000) | - | - | 343,000 | - |
| Special Designated Expenditures | (96,407) | 96,407 | - | - | - |
| FUND BALANCES, End of Year | <u>\$ 823,268</u> | <u>\$ -</u> | <u>\$ 1,209,864</u> | <u>\$ 2,270,417</u> | <u>\$ 4,303,549</u> |

See accountants' report.

**THE M.P.R. HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
 REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2007**

An independent engineering firm conducted a full reserve study dated May 30, 2006, 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 or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date; the figures below 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 amounts reported in the reserve replacement fund are for demonstrative purposes only and were allocated based on the estimated future replacement cost. Since the Board of Directors has the discretion to expend the accumulated funds as required, the funds are not designated to the specific components.

The funding program for future major repairs and replacements is based on the above mentioned reserve study. According to that independent study, \$2,248,367 is the recommended funded reserve balance at December 31, 2007; the Association's December 31, 2007 reserve replacement fund balance of \$2,270,417 approximates 101% of that recommendation. The study also estimates that the fully funded balance, using 2006 present values, for costs over the next 30 years is \$11,056,242; the Association's December 31, 2007 reserve replacement fund balance of \$2,270,417 approximates 21% of these estimated costs.

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

| SUMMARY OF RESERVE STUDY | | | |
|---------------------------------|---|---|---|
| Component | Estimated Remaining Useful Life in 2006 | Estimated Total 30 Year Current Costs at 2006 | Replacement Fund Balance at December 31, 2007 |
| Property Site Elements | 1 to 30 | \$ 1,794,684 | \$ 1,285,958 |
| Perimeter Wall Elements | 1 to 30 | 7,740,394 | |
| Pool and Spa Elements | 5 to 19 | 947,329 | 400,345 |
| Pool Structure Elements | 2 to 27 | 273,835 | 210,374 |
| Pond Elements | 2 to 13 | 144,500 | 56,980 |
| Office Elements | 1 to 15 | 146,700 | 50,400 |
| Reserve Study Elements | 0 to 2 | 8,800 | - |
| Unallocated | | - | 266,360 |
| Total | | <u>\$ 11,056,242</u> | <u>\$ 2,270,417</u> |

See accountants' report.