

**THE VILLAS AT WINDING RIDGE
OWNERS ASSOCIATION, INC.**

INDIANAPOLIS, INDIANA

AUDITED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008 AND 2007

THE VILLAS AT WINDING RIDGE OWNERS ASSOCIATION, INC.

INDIANAPOLIS, INDIANA

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To the Board of Managers
The Villas at Winding Ridge Owners Association, Inc.
Indianapolis, Indiana

We have audited the accompanying balance sheet of The Villas at Winding Ridge Owners

Association, Inc., as of December 31, 2008, and the related statements of revenues, expenses, and changes in fund balance 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. The financial statements of The Villas at Winding Ridge Owners Association, Inc. as of December 31, 2007, were audited by other auditors whose report, dated June 21, 2008, expressed an unqualified opinion on those statements.

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 2008 financial statements referred to above represent fairly, in all material respects, the financial position of The Villas at Winding Ridge Owners Association, Inc. as of December 31, 2008, 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.

The supplemental information on future repairs and replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consist principally 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.

Respectfully submitted,

May 18, 2009

THE VILLAS AT WINDING RIDGE OWNERS ASSOCIATION, INC.

EXHIBIT A

INDIANAPOLIS, INDIANA

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

ASSETS

<u>Funds</u>	<u>Operating</u> <u>Fund</u>	<u>2008</u> Reserve <u>Fund</u>	Total <u>All Funds</u>	<u>2007</u> Total <u>All</u>
CURRENT ASSETS				
Cash (Note 2,6)	\$ 34,020	\$377,284	\$ 411,304	\$

348,116				
Member assessments receivable (Note 2)	1,986	0	1,986	
1,685				
Accounts receivable other	0	0	0	
49				
Accrued interest (Note 2)	0	3,933	3,933	
3,213				
Prepaid expenses	<u>2,797</u>	<u>0</u>	<u>2,797</u>	
<u>380</u>				
TOTAL – CURRENT ASSETS	<u>\$ 38,803</u>	<u>\$381,217</u>	<u>\$ 420,020</u>	<u>\$</u>
<u>353,443</u>				

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES

Accounts payable	\$ 294	\$ 0	\$ 294	\$ 3,872
Prepaid member Assessments (Note 2)	4,302	0	4,302	
2,987				
Accrued real estate taxes	<u>1,262</u>	<u>0</u>	<u>1,262</u>	
<u>1,262</u>				
Total - Current Liabilities	\$ 5,858	\$ 0	\$ 5,858	\$
8,121				

COMMITMENTS AND CONTINGENCIES (Note 5)

FUND BALANCE	<u>\$ 32,945</u>	<u>\$381,217</u>	<u>\$ 414,162</u>	<u>\$</u>
<u>345,322</u>				
TOTAL - LIABILITIES AND FUND BALANCES	<u>\$ 38,803</u>	<u>\$ 381,217</u>	<u>\$ 420,020</u>	<u>\$</u>
<u>353,443</u>				

The accompanying notes are an integral part of these Financial Statements.

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THE VILLAS AT WINDING RIDGE OWNERS ASSOCIATION, INC.

EXHIBIT B

INDIANAPOLIS, INDIANA

STATEMENTS OF REVENUE, EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

<u>Funds</u>	<u>Operating</u> <u>Fund</u>	<u>2008</u> <u>Reserve</u> <u>Fund</u>	<u>Total</u> <u>All Funds</u>	<u>2007</u> <u>Total</u> <u>All</u>
REVENUE				
Member assessments	\$184,960	\$ 60,800	\$ 245,760	\$
245,760				
Late fees	1,646	0	1,646	
1,130				
Clubhouse income	1,400	0	1,400	
1,100				
Interest income	<u>180</u>	<u>10,734</u>	<u>10,914</u>	
<u>14,547</u>				
Total Revenue	\$188,186	\$ 71,534	\$ 259,720	\$
262,537				
EXPENSES				
Management fees	\$ 16,966	\$ 0	\$ 16,966	\$
16,627				
Administrative	2,869	0	2,869	
2,361				
Professional fees	2,717	0	2,717	
2,621				
Utilities	9,433	0	9,433	
7,171				
Trash removal	11,918	0	11,918	
10,509				
Real estate taxes	1,119	0	1,119	
(3,056)				
Grounds maintenance	62,374	0	62,374	76,212
Pool and clubhouse	6,012	0	6,012	4,642
Common area maintenance	14,478	0	14,478	13,785
Roof repairs	3,513	0	3,513	5,970

Property and liability				
Insurance	26,030	0	26,030	27,651
Painting	16,250	0	16,250	14,050
Replacement reserve expenses	<u>0</u>	<u>17,201</u>	<u>17,201</u>	<u>16,746</u>
Total Expense	\$173,679	\$ 17,201	\$ 190,880	\$ 195,289
Excess of revenues	14,507	54,333	68,840	67,248
FUND BALANCE-				
Beginning of year	<u>18,438</u>	<u>326,884</u>	<u>345,322</u>	<u>278,074</u>
FUND BALANCE-				
End of year	<u>\$ 32,945</u>	<u>\$381,217</u>	<u>\$ 414,162</u>	<u>\$ 345,322</u>

The accompanying notes are an integral part of these Financial Statements.

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THE VILLAS AT WINDING RIDGE OWNERS ASSOCIATION, INC.
EXHIBIT C
INDIANAPOLIS, INDIANA
STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
Net Increase in Cash

<u>2007</u>	<u>2008</u>		
Total	Operating	Reserve	Total
<u>All Funds</u>	<u>Fund</u>	<u>Fund</u>	<u>All Funds</u>
CASH FLOWS FROM (USED BY)			
OPERATIONS ACTIVITIES:			
Excess of revenues			
over expenses	<u>\$14,507</u>	<u>\$ 54,333</u>	<u>\$ 68,840</u>
<u>67,248</u>			\$
Adjustments to reconcile excess			
of revenues over expenses to			
net cash from (used by) operating			
activities:			

(Increase) in assessments receivable (1,079)	(301)	0	(301)	
(Increase) decrease in accrued interest	0	(720)	(720)	
2,434				
Increase (decrease) in prepaid member assessments	1,315	0	1,315	
(4,208)				
(Increase) decrease in other current assets	(2,368)	0	(2,368)	
2,670				
Increase (decrease) in accounts payable	(3,578)	0	(3,578)	
2,768				
Increase (decrease) in accrued real estate taxes	<u>0</u>	<u>0</u>	<u>0</u>	
(4,281)				
Total Adjustments	<u>\$ (4,932)</u>	<u>\$ (720)</u>	<u>\$ (5,652)</u>	\$
(1,696)				
NET CASH FROM OPERATING ACTIVITIES	\$ 9,575	\$ 53,613	\$ 63,188	\$
65,552				
NET INCREASE IN CASH	\$ 9,575	\$ 53,613	\$ 63,188	\$
65,552				
CASH AT BEGINNING OF YEAR	<u>24,445</u>	<u>323,671</u>	<u>348,116</u>	
<u>282,564</u>				
CASH AT END OF YEAR	<u>\$ 34,020</u>	<u>\$ 377,284</u>	<u>\$ 411,304</u>	\$
<u>348,116</u>				

The accompanying notes are an integral part of these Financial Statements.

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THE VILLAS AT WINDING RIDGE OWNERS ASSOCIATION, INC.
INDIANAPOLIS, INDIANA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE 1: NATURE OF ORGANIZATION:

The Villas at Winding Ridge Owners Association, Inc. (the Association) is an Indiana non-profit corporation classified as a Code Section 528 Homeowners Association by the Internal Revenue Service. The Association was incorporated in Indiana on January 15, 1998 and consists of 128 condominium units located in Indianapolis, Indiana. The Association (as a qualified association) has elected to include membership dues and assessments received by the Association as part of the obligation of ownership of the residential property. The Association pays tax, however, on certain nonexempt net income, including interest earned on amounts set aside for future improvements. There were no taxes incurred on non-exempt income for the year ended December 31, 2008 or 2007.

As a homeowners' association, its purpose is to own, manage, maintain, reserve, repair, and reconstruct the community area and provide architectural control of the lots of the Association. In addition, the Association promotes the health, safety and welfare of the residents of the Association.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting – The Association's policy is to prepare its financial statements on the accrual basis of accounting. This means that revenue is recognized as it is earned and expenses are recognized as they are incurred whether or not cash is received or disbursed at the time.

Fund Accounting – The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes. To ensure that the Association will have adequate funds to provide for large or unanticipated future expenditures, the Association has reserved portions of members' equity for repair and replacement of common land and building or other common assets. These funds are reserved for these specific purposes and are generally not available to pay for current operating expenses of the Association.

Member Assessments Receivable - The Association considers its accounts receivable to be fully collectible: accordingly no provision is made for doubtful

accounts. Uncollectible accounts are charged to income when the Association deems them uncollectible.

reserve
Interest Earned - The Association policy is to allocate interest earned on the fund cash balances to the reserve fund, net of income taxes.

assessment
year-
Member Assessments – Association members are subject to an annual to provide funds for the Association’s operating expenses, future capital acquisitions and major repairs and replacements. Any excess assessments at end are retained by the Association for use in future years.

The 2008 and 2007 fees were assessed monthly at \$160 per unit.

The annual budget and assessments of owners are determined by the Board of Managers.

service
Donated Services – The Association’s Board of Managers and its officer’s without compensation. These donated services are not recorded in the financial statements.

Property and Equipment – Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association’s financial statements because these properties are owned by the individual unit owners in common and not by the Association.

management
the
Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 reporting period. Actual results could differ from those estimates.

Cash Equivalents – Cash and cash equivalents are considered to be checking and savings accounts, money market funds, and certificates of deposit regardless of maturity date.

have
financial
Reclassification – Certain items in the December 31, 2007 financial statements been reclassified to conform to the presentation of the December 31, 2008

statements. The reclassifications had no effect on reported excess of revenue over expenses, total assets, liabilities, fund balances, or cash flows.

NOTE 3: OPERATING EXPENSES:

The following items make up the grounds maintenance expenses for December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Snow removal	\$ 2,960	\$ 14,690
Mowing	19,845	15,050
Lawn care	8,354	14,101
Flowers	2,445	3,372
Tree and shrub care	10,656	11,461
Mulch/Bed maintenance	<u>18,114</u>	<u>17,538</u>
Total	<u>\$ 62,374</u>	<u>\$ 76,212</u>

NOTE 4: RELATED PARTY TRANSACTIONS:

The Association has employed Kirkpatrick Management Company, Inc., as its management agent, for an original term of one year. At the expiration of each term,

the agreement will be extended for a period of one year upon approval of the following year's operating budget. For the year ended December 31, 2008 and 2007, management fees of \$16,966 and \$16,627 were earned and paid. The fee is based on \$11.04 and \$10.82 per unit per month for 2008 and 2007, respectively. The management company provided various maintenance and administrative services to the Association. During the year ended December 31, 2008 and 2007, they were paid for the following services:

	<u>2008</u>	<u>2007</u>
Administrative	\$ 1,199	\$ 867
Pool and clubhouse	4,792	7,351
Common area maintenance	2,134	6,148
Roof repairs	<u>1,390</u>	<u>500</u>
Total	<u>\$ 9,515</u>	<u>\$ 14,866</u>

NOTE 5: COMMITMENTS AND CONTINGENCIES:

OFF-BALANCE SHEET RISK

Concentrations of Cash on Deposit and Uninsured Cash Balances: The Association

has concentrated its credit risk for cash by maintaining deposits in one financial institution which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC). No loss would have

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resulted from the risk as of December 31, 2008 for the excess of deposit liabilities reported by the banks over the amounts that would have been covered by federal insurance. During the year ended December 31, 2007, \$82,765 in cash balances was in excess of federally insured limits. The Association has not experienced

any

losses in such accounts and believes it is not exposed to any significant credit risk to cash.

NOTE 6: FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$377,284 at December 31, 2008, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the reserve account. During 2008 and 2007, \$93.58 per unit per month was contributed to the reserve fund. Actual expenditures may vary from anticipated future repair and replacement costs and may be material. Therefore, amounts accumulated in the reserve 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 repairs and replacements until funds are available.

The reserve fund expenses consisted of the following at December 31, 2008:

Window caulking	\$ 1,600
Tree and shrub replacement	7,525
Asphalt repair	6,125
External light fixtures	1,370
Contingency	<u>581</u>
Total	<u>\$ 17,201</u>

During 2003, a study was done by the Association to determine the remaining useful lives of the components of common property and estimates of the cost of major repairs and replacements that may be required in the future. The estimates were based on 2003 replacement costs. The Association is funding such major repairs and replacements based on the study's estimate of current replacement costs and useful lives while considering amounts previously accumulated in the reserve fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve 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 repairs and replacements until funds are available.

The above reserve study was completed by Reserve Specialists, Inc., a wholly owned subsidiary of the predecessor auditor.

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

SCHEDULE A

INDIANAPOLIS, INDIANA

DECEMBER 31, 2008

A reserve study was completed by the Association in December of 2003 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding such major repairs and replacements based on the study's estimate of current replacement costs and useful lives while considering amounts previously accumulated in the reserve fund. Estimated current replacement costs have not been revised since that date. The following information is based on the 2003 study and represents significant information about the components of common property.

Reserve Fund	Estimated Remaining Useful Life	(Years) 2014-2023	2009 Total	2010 12/31/08	2011	2012
Concrete	1-14	\$ 0	\$ 0	\$ 3,600	\$ 0	\$ 0
Asphalt	2-14	0	0	206,200	209,800	0
Window caulking	1-14	0	0	73,593	78,993	0
Clubhouse	0-14	1,600	500	6,000	8,400	0
Entrance way	6-14	0	0	3,250	56,350	0
Lake	0-14	3,200	0	2,750	2,750	0
Landscaping	2-14	0	0	8,150	11,350	0
Roofs	1-9	0	0	5,000	0	5,000
Pool	0-14	21,100	0	392,600	398,600	0
Signs	2-14	0	0	1,500	77,256	0
Mailboxes	0-14	0	0	3,200	4,000	0
		<u>1,760</u>	<u>1,760</u>	<u>1,760</u>	<u>1,760</u>	<u>1,760</u>
		<u>0</u>	<u>7,040</u>	<u>14,080</u>	<u>0</u>	<u>0</u>
		<u>\$27,660</u>	<u>\$11,460</u>	<u>\$19,310</u>	<u>\$11,460</u>	<u>\$11,460</u>
		<u>\$ 5,400</u>	<u>\$ 821,289</u>	<u>\$ 896,579</u>	<u>\$ 377,284</u>	<u>\$ 377,284</u>

The accompanying notes are an integral part of these Financial Statements.

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