

BROOK RUN ASSOCIATION
FINANCIAL STATEMENTS

December 31, 2011

John Michael Pentz
Certified Public Accountant

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5698 Wolf Ridge Court
Oak Ridge, North Carolina 27310
(336) 644-7669

Independent Auditor's Report

Board of Directors and Owners
Brook Run Association
Jamestown, North Carolina

I have audited the accompanying balance sheet of Brook Run Association as of December 31, 2011, and the related statements of revenue, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brook Run Association as of December 31, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. My opinion on the basic financial statements is not affected by the missing information.

January 8, 2012



BROOK RUN ASSOCIATION

BALANCE SHEET

December 31, 2011

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 3,357	\$ 6,106	\$ 9,463
Certificate of deposit	-----	5,016	5,016
Prepaid insurance	377	-----	377
Assessments receivable	<u>2,204</u>	<u>-----</u>	<u>2,204</u>
Total Assets	<u>\$ 5,938</u>	<u>\$ 11,122</u>	<u>\$ 17,060</u>
LIABILITIES AND FUND BALANCE			
Prepaid assessments	<u>\$ 2,143</u>	<u>\$ -----</u>	<u>\$ 2,143</u>
Total Liabilities	2,143	-----	2,143
Fund balance	<u>3,795</u>	<u>11,122</u>	<u>14,917</u>
Total Liabilities and Fund Balance	<u>\$ 5,938</u>	<u>\$ 11,122</u>	<u>\$ 17,060</u>

See accompanying notes to financial statements.

BROOK RUN ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE

Year Ended December 31, 2011

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Totals</u>
Revenues:			
Assessments	\$ 23,310	\$ 3,900	\$ 27,210
Other	861	-----	861
Interest	<u>-----</u>	<u>21</u>	<u>21</u>
Total Revenues	<u>24,171</u>	<u>3,921</u>	<u>28,092</u>
Operating Expenses:			
Utilities	1,998	-----	1,998
Resident activities	1,121	-----	1,121
Management fees	6,300	-----	6,300
Grounds maintenance	9,132	-----	9,132
Repairs and maintenance	906	-----	906
Uncollectible assessments	148	-----	148
Park benches	-----	423	423
Pond maintenance	1,091	-----	1,091
Landscaping	986	-----	986
Administration	952	-----	952
Professional fees	550	-----	550
Insurance	<u>899</u>	<u>-----</u>	<u>899</u>
Total Expenses	<u>24,083</u>	<u>423</u>	<u>24,506</u>
Revenues Over (Under) Expenses	88	3,498	3,586
Transfer between Funds	-----	-----	-----
Fund balance, beginning	<u>3,707</u>	<u>7,624</u>	<u>11,331</u>
Fund balance, ending	<u>\$ 3,795</u>	<u>\$ 11,122</u>	<u>\$ 14,917</u>

See accompanying notes to financial statements.

BROOK RUN ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Totals</u>
Cash Flows from Operations:			
Revenues Over (Under) Expenses	\$ 88	\$ 3,498	\$ 3,586
Reconciliation of Revenues Over (Under) Expenses to Net Cash Provided (Used) by Operations:			
Interest income reinvested	-----	(16)	(16)
Changes in Assets and Liabilities:			
(Increase) decrease in:			
Assessments receivable	262	-----	262
Prepaid insurance	(5)	-----	(5)
Increase (decrease) in:			
Prepaid assessments	<u>(152)</u>	<u>-----</u>	<u>(152)</u>
Net Cash Provided (Used) by Operations	<u>193</u>	<u>3,482</u>	<u>3,675</u>
Cash flows from Investing Activities:			
Certificate of deposit purchase	<u>-----</u>	<u>(5,000)</u>	<u>(5,000)</u>
Net increase (decrease) in cash	193	(1,518)	(1,325)
Cash and cash equivalents, beginning of year	<u>3,164</u>	<u>7,624</u>	<u>10,788</u>
Cash and cash equivalents, end of year	<u>\$ 3,357</u>	<u>\$ 6,106</u>	<u>\$ 9,463</u>

See accompanying notes to financial statements.

BROOK RUN ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Brook Run Association (Association) was organized in October, 1994 under the laws of the State of North Carolina for the purpose of administering the operations and maintenance of the common areas within the development. The Association consists of 130 single family homes located in Jamestown, North Carolina.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

A. Fund Accounting

The Association's governing documents provide guidelines for maintaining financial activities. To ensure observance of the restrictions placed on financial resources, the Association uses fund accounting. The following funds are used to account for the financial resources of the Association:

Operating Fund - This fund accounts for the general operations of the Association. Disbursements from this fund are at the discretion of the property manager and Board of Directors.

Replacement Fund - This fund accumulates resources which will be used for designated future major repairs and replacements. Capital disbursements are generally made for designated purposes and require the approval of the Board of Directors.

B. Owners Assessments

Association members are subject to monthly assessments which provide funds for the Association's operations and future capital replacements and repairs. Assessments receivable at the balance sheet date represent fees due from unit owners and are considered fully collectible. The Association's governing documents allow certain remedies by the Association against members for delinquent assessments, including placing liens on the properties of the members. Any excess assessments at year end are retained by the Association for use in future years.

C. Property and Equipment

The Association capitalizes all property and equipment to which it holds title or has other evidence of ownership. The real property and common areas of the Association are not depreciated and are not recorded in the Association's financial statements because they are owned by the individual unit owners in common and not by the Association.

BROOK RUN ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CON'T)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES (CON'T)

D. Income Taxes

The Association may be taxed as a homeowners association or as a regular corporation. For the year ended December 31, 2011, the Association elected to be taxed as a homeowners association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. The Association must report unrelated business income for state income tax purposes.

On January 1, 2009, the Association adopted the new accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

The Association's federal and state income tax returns for 2007, 2008, and 2009 are subject to examination by the appropriate tax authorities, generally for three years after they were filed. However, no examinations are in progress or anticipated.

E. Cash Flows

For the Statement of Cash Flows, the Association considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents allow for funds for future major repairs and replacements to be acquired through a special assessment when needed or through an accumulation of regular assessments. The board of directors has chosen to establish a replacement fund. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Association has not conducted a formal study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The board is funding for future major repairs and replacements based on an informal plan. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

BROOK RUN ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CON'T)

4. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. MANAGEMENT SERVICES

Golden Property Management, the managing agent for the Association, or one of its affiliates, provides various services to the Association when authorized by the Board of Directors. In addition to the management of the Association, these services may include maintenance.

6. CONCENTRATIONS OF CREDIT RISK

The Association maintains cash and certificate of deposit balances at a financial institution located in Raleigh, North Carolina. The balances at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011, the Association did not have any cash balances that exceeded the insured amount.

7. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, The Association has evaluated events and transactions for potential recognition or disclosure through January 8, 2012, the date that the financial statements were available to be issued.