

HAVERFORD HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

Year ended December 31, 2007 with
comparative totals for 2006

with

Report of Certified Public Accountants

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NYBORG & COMPANY, LTD.

Member of the AICPA and Illinois CPA Society

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Haverford Homeowners Association
Glenview, Illinois

We have audited the accompanying balance sheets of Haverford Homeowners Association as of December 31, 2007, and the related statements of revenue, 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 and Board of Directors. 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 financial position of Haverford Homeowners Association as of December 31, 2007, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenses (page 10) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Information for the year ended December 31, 2006 is presented for comparative purposes only and is not presented in accordance with accounting principles generally accepted in the United States of America, on which we expressed a qualified opinion in our report dated December 18, 2007 because of the effects of not having disclosed the remaining useful lives and replacement costs of the community common areas.

The schedule of future major repairs and replacements (page 11) 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 consisted 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.

Nyberg & Company, PC

July 7, 2008

HAVERFORD HOMEOWNERS ASSOCIATION

BALANCE SHEETS

December 31, 2007 and 2006

	2007			2006
	<u>Operating</u>	<u>Replacement</u>	<u>Total</u>	<u>Total</u>
	<u>fund</u>	<u>fund</u>		
Assets:				
Cash and cash equivalents	\$80,571	21,397	101,968	111,186
Accounts receivable	815		815	5,377
Prepaid expenses	869		869	1,253
Due from funds	<u>4,920</u>		<u>4,920</u>	<u>734</u>
Total assets	<u>\$87,175</u>	<u>21,397</u>	<u>108,572</u>	<u>118,550</u>
Liabilities and fund balances:				
Liabilities-				
Accounts payable and accrued expenses	\$ 5,498		5,498	7,278
Assessments received in advance	6,737		6,737	3,144
Due to funds		<u>4,920</u>	<u>4,920</u>	<u>734</u>
Total liabilities	12,235	4,920	17,155	11,156
Fund balances-				
Available for operations	74,940		74,940	100,220
Available for replacement of community common areas		<u>16,477</u>	<u>16,477</u>	<u>7,174</u>
Total fund balances	<u>74,940</u>	<u>16,477</u>	<u>91,417</u>	<u>107,394</u>
Total liabilities and fund balances	<u>\$87,175</u>	<u>21,397</u>	<u>108,572</u>	<u>118,550</u>

See accompanying notes.

HAVERFORD HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

Year ended December 31, 2007 with comparative totals for 2006

	2007			2006
	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>	<u>Total</u>
Revenue:				
Member assessments	\$108,304	8,400	116,704	85,640
Initial assessments	5,656	600	6,256	31,016
Interest	2,173	303	2,476	214
Other	1,297		1,297	25
Total revenue	117,430	9,303	126,733	116,895
Expenses:				
General and administrative	25,423		25,423	13,688
Operating	48,777		48,777	41,589
Repairs and maintenance	65,677		65,677	9,990
Insurance	2,833		2,833	2,871
Total expenses	142,710		142,710	68,138
Revenue over (under) expenses	(25,280)	9,303	(15,977)	48,757
Fund balances at beginning of year	100,220	7,174	107,394	58,637
Fund balances at end of year	\$ 74,940	16,477	91,417	107,394

See accompanying notes.

HAVERFORD HOMEOWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS

Year ended December 31, 2007 with comparative totals for 2006

	2007			2006
	<u>Operating fund</u>	<u>Replacement fund</u>	<u>Total</u>	<u>Total</u>
Cash and cash equivalents at beginning of year	\$104,746	6,440	111,186	56,701
Cash flows from operating activities:				
Member assessments received	122,115	9,000	131,115	115,106
Interest received	2,173	303	2,476	214
Other revenue received	1,297		1,297	25
Operating expenses paid	<u>(144,106)</u>		<u>(144,106)</u>	<u>(60,860)</u>
Net cash provided by (used for) operating activities	(18,521)	9,303	(9,218)	54,485
Cash flows from financing activities:				
Interfund borrowings	<u>(5,654)</u>	5,654		
Net increase (decrease) in cash	<u>(24,175)</u>	14,957	<u>(9,218)</u>	54,485
Cash and cash equivalents at end of year	<u>\$ 80,571</u>	<u>21,397</u>	<u>101,968</u>	<u>111,186</u>
RECONCILIATION OF REVENUE OVER (UNDER) EXPENSES TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Revenue over (under) expenses	\$ (25,280)	9,303	(15,977)	48,757
Effects of all deferrals and accruals on operating receipts and payments:				
Changes in accounts receivable	4,562		4,562	(1,012)
Changes in prepaid expenses	384		384	
Changes in accounts payable and accrued expenses	(1,780)		(1,780)	7,278
Changes in assessments received in advance	<u>3,593</u>		<u>3,593</u>	<u>(538)</u>
Net cash provided by (used for) operating activities	<u>\$ (18,521)</u>	<u>9,303</u>	<u>(9,218)</u>	<u>54,485</u>

See accompanying notes.

HAVERFORD HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

1. Significant accounting policies

The Haverford Homeowners Association (the "Master Association") financial statements and income tax returns are prepared on the accrual basis of accounting which recognizes revenue when it is earned or due and expenditures when they are incurred.

The Master Association uses the fund method of accounting, which requires that operating funds and funds restricted for future major repairs and replacements be classified separately for accounting and reporting purposes. Expenses from the operating fund are to be made at the discretion of the Board of Directors, while expenditures from the replacement fund are to be made only for the replacement of community common areas.

Cash and cash equivalents include all cash accounts, money market accounts and certificates of deposit.

Accounts receivable are member obligations due for unpaid assessments and other monthly charges. Payments on receivables that are received after a 10-day grace period are assessed a late fee of \$25. Late fees are recognized as income when billed. Accounts receivable are stated at the amount billed to the members. Member account balances with invoices dated over 30 days old are considered delinquent. Payments of accounts receivable are allocated to the specific charges identified on the member's remittance advice or, if unspecified, are applied to the earliest unpaid balance.

The Master Association holds title to the community common areas, deeded to it by the Developer on November 11, 2005. No amount has been recorded as a fixed asset on the balance sheet.

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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting periods. Actual results could differ from those estimates.

2. Master Association organization
and operations

The Master Association, incorporated as an Illinois general not-for-profit corporation, was formed under a Community Declaration on April 25, 2005. The Master Association, which encompasses 48 assessable residential condominium units and 50 assessable single family detached homes, is the governing body for all the members to provide for the maintenance, repair, replacement, administration, and operation of the property, except individual dwelling units, covered by its Declaration.

The Board of Directors, elected by the members in accordance with the Declaration, is responsible for the Master Association's management, including establishment of budgets used to determine assessments and other financial matters. Assessments for operation and maintenance of the Master Association and for future capital replacements and improvements of its community common areas are charged to members on an equal basis.

The members hold title to their individual dwelling units and an undivided interest in the Master Association's community common areas (consisting of retention and detention areas, landscaped areas, private roads, including street lights and other improvements thereon, private driveways and monument sign areas). The community common areas are not subject to real estate taxes because the real estate tax assessed values of individual dwelling units include the community common areas.

3. Income taxes

Under present income tax laws, a homeowners' association may elect each year to file its federal income tax return as a not-for-profit homeowners' association or as a for-profit corporation. For 2006, the Master Association filed as a not-for-profit homeowners' association with no income tax liability. For 2007, the Master Association intends to file as a not-for-profit homeowners' association with no income tax liability.

As of December 31, 2007, for state income tax purposes, the Association has cumulative net operating losses of approximately \$1,360. The net operating losses begin to expire in 2018.

4. Future major repairs
and replacements

The Master Association's Declaration states that the Master Association shall segregate and maintain an adequate reserve fund to be used solely for making capital expenditures in connection with the community common areas. The Master Association engaged an independent company who conducted a study in November 2007 to estimate the remaining useful lives and the replacement costs of the community common area components. Funding requirements consider an annual inflation rate of four and sixty-seven hundredths percent and an interest rate of four percent on amounts funded for future major repairs and replacements.

The Board is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of 2007 replacement costs and considering amounts previously accumulated in the replacement fund. The Association has decided to partially fund the study's requirement of \$13,600 and has included \$10,000 in the 2008 budget.

Funds are being accumulated in the replacement fund, based on 2007 estimated costs, for the future replacement of community common area components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Master Association has the right to increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available. As of December 31, 2007, the Master Association had accumulated \$16,477 of equity which is available to meet future capital replacement requirements.

5. Fair value of financial instruments

All financial instruments are held or issued for other than trading purposes. Management applied the following methods and assumptions to estimate the fair value of cash and cash equivalents and investments:

Cash and cash equivalents - The carrying amount of cash and cash equivalents approximates its fair value because of the close proximity to maturity.

6. Initial assessments

Upon closing from the sale by the Developer, each dwelling unit pays to the Master Association three months' assessments for working capital needs and is reported in the operating fund and, an additional \$100 restricted for future major repairs and replacements which is reported in the replacement fund.

7. Cost sharing agreement

The Master Association is part of a cost sharing agreement with the Village of Glenview, the Heatherfield Master Community Association and a commercial parcel. All of the parcels are contiguous and adjacent to one another and are served by a sanitary sewer lift station. The Village pays for, oversees and administers the maintenance and operation of the lift station. The Master Association is obligated to pay for 22.04% of the expenses of the lift station to the Village each quarter. As of December 31, 2006, the Master Association had paid \$380 to the Village.

8. Note payable

On February 12, 2008, a bank loan of \$120,000 was made available to the Association to finance the sprinkler system. The Master Association actually borrowed \$74,000 in 2008 and does not intend to borrow anymore. The note is estimated to have an interest rate of six and seven-eighths percent per annum for thirty-six months with a fixed monthly installment of principal and interest of \$3,698. The loan will be secured by all assessments and any assets owned by the Association. A prepayment penalty will be incurred if this loan is refinanced with another lending institution.

SUPPLEMENTARY INFORMATION

HAVERFORD HOMEOWNERS ASSOCIATION

SCHEDULE OF EXPENSES

Year ended December 31, 2007 with comparative totals for 2006

	2007 <u>Actual</u>	2006 <u>Actual</u>
General and administrative:		
Management services	\$ 12,000	12,000
Cost sharing		380
Office expense	4,106	1,008
Audit	5,000	
Legal	3,067	
Professional fees	<u>1,250</u>	<u>300</u>
Total general and administrative	25,423	13,688
Operating:		
Landscaping	32,165	29,240
Snow removal	15,393	12,162
Electricity	<u>1,219</u>	<u>187</u>
Total operating	48,777	41,589
Repairs and Maintenance:		
Landscaping	17,757	9,786
Tree care	20,826	
Mulch	27,094	
General		<u>204</u>
Total repairs and maintenance	65,677	9,990
Insurance	<u>2,833</u>	<u>2,871</u>
Total expenses	<u>\$142,710</u>	<u>68,138</u>

HAVERFORD HOMEOWNERS ASSOCIATION

SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2007

(UNAUDITED)

An independant company conducted a study in November 2007 to estimate the remaining useful lives and the replacement costs of the components of the community common areas. The estimates were based on 2007 estimated replacement costs. Funding requirements consider an annual inflation rate of four and sixty-seven hundredths percent and an interest rate of four percent on amounts funded for future major repairs and replacements.

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

<u>Components</u>	<u>2007 Estimated remaining useful lives</u>	<u>2007 Estimated replacement costs</u>	<u>2008 Funding requirement</u>	<u>Components of replacement fund balances at Dec. 31, 2007</u>
Asphalt streets	6-19 yrs	\$338,113	\$	\$
Mailboxes	14-29 yrs	113,032		
Concrete walks	5-30 yrs	102,885		
Concrete curbing	5-30 yrs	81,862		
Wood arbors	14-29 yrs	14,129		
Benches	14-29 yrs	11,303		
Monument				
tuckpointing	24 yrs	10,466		
Brick pavers	24 yrs	<u>9,569</u>	<u> </u>	<u> </u>
		<u>\$681,359</u>	<u>\$13,600</u>	<u>\$16,477</u>