

**HIGHLINE  
MEADOWS  
CONDOMINIUM  
ASSOCIATION, INC.**

Financial Statements

December 31, 2009

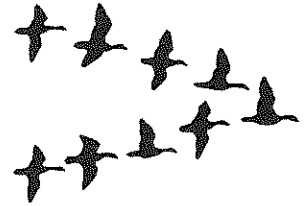
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Board of Directors  
Highline Meadows Condominium Association, Inc.  
Centennial, Colorado

## Independent Auditors' Report

We have audited the accompanying balance sheet of Highline Meadows Condominium Association, Inc. as of December 31, 2009 and the related statements of revenues, 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 the Board of Directors, 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 Highline Meadows Condominium Association, Inc. as of December 31, 2009 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 Supplementary Information on Future Repairs and Replacements on page 9 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 and measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Dix Barrett & Stiltner P.C.*

June 14, 2010

# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Balance Sheet December 31, 2009

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 33,756	\$ 33,756
Assessments receivable, net of allowance for doubtful accounts of \$130,000	114,376	-	114,376
Due from operating fund	-	36,707	36,707
Prepaid income taxes	1,140	-	1,140
Prepaid insurance	27,194	-	27,194
Lift station and equipment, net of accumulated depreciation of \$39,978	92,951	-	92,951
<b>Total assets</b>	<u>\$ 235,661</u>	<u>\$ 70,463</u>	<u>\$ 306,124</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Cash overdraft	\$ 1,008	\$ -	\$ 1,008
Accounts payable	69,193	-	69,193
Due to reserve fund	36,707	-	36,707
Prepaid assessments	18,971	-	18,971
Deposits	1,025	-	1,025
<b>Total liabilities</b>	126,904	-	126,904
<b>Fund balances</b>	<u>108,757</u>	<u>70,463</u>	<u>179,220</u>
<b>Total liabilities and fund balances</b>	<u>\$ 235,661</u>	<u>\$ 70,463</u>	<u>\$ 306,124</u>

See notes to financial statements.

# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Statement of Revenues, Expenses and Changes in Fund Balances For the Year Ended December 31, 2009

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Member assessments	\$ 768,401 ✓	\$ -	\$ 768,401 ✓
Member interest assessed	14,965 ✓	-	14,965 ✓
Laundry income	15,341 ✓	-	15,341 ✓
Rental income	10,343 ✓	-	10,343 ✓
Interest income	86 ✓	393 ✓	479 ✓
Other income	10,184 ✓	-	10,184 ✓
Total revenues	<u>819,320</u>	<u>393</u>	<u>819,713</u>
<b>Expenses</b>			
Management fees	57,203 ✓	-	57,203 ✓
Administrative expenses	12,598 ✓	-	12,598 ✓
Bad debts	59,573 ✓	-	59,573 ✓
Vehicle expenses	4,696 ✓	-	4,696 ✓
Condominium repairs and maintenance	70,879 ✓	-	70,879 ✓
Utilities	75,186 ✓	-	75,186 ✓
Grounds maintenance	48,973 ✓	13,264 ✓	62,237 ✓
Insurance	111,872 ✓	-	111,872 ✓
Maintenance personnel and benefits	119,378 ✓	-	119,378 ✓
Pool and clubhouse expenses	17,952 ✓	6,896 ✓	24,848 ✓
Professional fees	21,199 ✓	-	21,199 ✓
Plumbing maintenance and repairs	22,447 ✓	6,200 ✓	28,647 ✓
Roof, balcony and building repairs	54,090 ✓	25,000 ✓	79,090 ✓
Townhouse repairs and maintenance	19,785 ✓	-	19,785 ✓
Snow removal	1,903 ✓	-	1,903 ✓
Trash removal	16,098 ✓	-	16,098 ✓
Water and sewer	73,884 ✓	-	73,884 ✓
Lift station expenses	26,514 ✓	-	26,514 ✓
Interest expense	479 ✓	-	479 ✓
Depreciation expense	7,872 ✓	-	7,872 ✓
Total expenses	<u>822,581</u>	<u>51,360</u>	<u>873,941</u>
Deficiency of revenues over expenses	(3,261)	(50,967)	(54,228)
Fund balances - beginning of year	192,678	40,770	233,448
Interfund transfers	(80,660)	80,660	-
Fund balances - end of year	<u>\$ 108,757</u>	<u>\$ 70,463</u>	<u>\$ 179,220</u>

See notes to financial statements.

# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Statement of Cash Flows For the Year Ended December 31, 2009

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Deficiency of revenues over expenses	\$ (3,261)	\$ (50,967)	\$ (54,228)
Adjustments to reconcile deficiency of revenues over expenses to cash provided by operating activities:			
Depreciation expense	7,872	-	7,872
Interfund transfers	(80,660)	80,660	-
Decrease (increase) in:			
Assessments receivable	132,044	-	132,044
Due from operating fund	-	4,776	4,776
Prepaid insurance	(5,767)	-	(5,767)
Increase (decrease) in:			
Cash overdraft	1,008	-	1,008
Accounts payable	(48,485)	(743)	(49,228)
Due to reserve fund	(4,776)	-	(4,776)
Prepaid assessments	4,187	-	4,187
Deposits	625	-	625
Cash provided by operating activities	<u>2,787</u>	<u>33,726</u>	<u>36,513</u>
Cash flows from financing activities:			
Principal payments on bank loans	<u>(10,069)</u>	<u>-</u>	<u>(10,069)</u>
Cash used by financing activities	<u>(10,069)</u>	<u>-</u>	<u>(10,069)</u>
Increase (decrease) in cash and cash equivalents	(7,282)	33,726	26,444
Cash and cash equivalents:			
Beginning of year	<u>7,282</u>	<u>30</u>	<u>7,312</u>
End of year	<u>\$ -</u>	<u>\$ 33,756</u>	<u>\$ 33,756</u>

See notes to financial statements.

# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements December 31, 2009

### Note 1: Organization

Highline Meadows Condominium Association, Inc. was incorporated on July 26, 1978 as a Colorado nonprofit corporation. The Association has 298 condominium and townhome units and is located in Centennial, Colorado. It was formed to maintain, operate and govern the common area which consist principally of the structural components of the buildings, yards, gardens and parking areas. The Association's primary source of revenue is annual dues assessed each owner, collected in monthly installments. Other revenue sources include interest income, rental income of units, garage rental, laundry income and late fees. The Association is governed by the Board of Directors. The Board's responsibilities include approving the day to day operations of the Association, approving budgets and related assessments, obtaining insurance coverages, etc.

### Note 2: Summary of Significant Accounting Policies

#### Basis of Presentation

The Association uses the fund method of reporting, which requires that funds, such as operating funds and funds for future major repairs and replacements (replacement fund), be classified separately for reporting purposes. Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the replacement fund may be made only for designated purposes.

#### Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting. Revenues and expenses are recognized in the period earned or incurred, respectively.

#### Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less at the date of acquisition, to be cash equivalents.

HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements  
December 31, 2009

Note 2: Summary of Significant Accounting Policies (Continued)

Interest Earned

The Board's policy is to allocate interest earned on the cash accounts to the fund in which it was earned.

Accounting 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates which may be material to the financial statements.

Recognition of Assets Policy

During 1993 the Association adopted the method of accounting for common property required by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide, Audits of Common Interest Realty Associations, issued as of August 31, 1991. With respect to the capitalization of common area assets, the following summarizes this accounting and auditing guide recommended accounting principle:

Common real property is recognized as an Association asset if the asset is not directly associated with the units, the Association has title or other evidence of ownership and either of the following conditions are met:

- (1) The Association can dispose of the asset, at the discretion of the Board, for cash or claims to cash, with the Association retaining the proceeds;
- (2) The property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers of the Association.

Generally common personal property should be recognized as an asset.



# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Notes to Financial Statements December 31, 2009

### Note 2: Summary of Significant Accounting Policies (Continued)

#### Lift Station and Equipment

The lift station and equipment are recorded at cost and are depreciated over its estimated useful life using the straight line method. The following is a summary of cost, accumulated depreciation and estimated useful lives as of December 31, 2009:

<u>Description</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Estimated Useful Life in Years</u>
Lift Station	\$ 109,073	\$ 27,270	30
Equipment	<u>23,856</u>	<u>12,708</u>	5 - 7
	<u>\$ 132,929</u>	<u>\$ 39,978</u>	

Depreciation expense was \$7,872 for the year ended December 31, 2009.

### Note 3: Members' Assessments

The annual common expense assessment amount is determined through the Board's budgetary process and varies depending upon the type of unit owned. The monthly installment of the annual common expense assessment is detailed as follows:

	<u>Number Of Units</u>	<u>Jan - Mar Monthly Dues</u>	<u>Apr - Dec Monthly Dues</u>
1 Bedroom Condos	108	\$ 164.50	\$ 180.95
2 Bedroom Condos	120	\$ 201.65	\$ 221.80
2 Bedroom Townhomes	36	\$ 225.50	\$ 237.00
3 Bedroom Townhomes	34	\$ 297.50	\$ 312.40

It is the Board's policy to transfer the operating fund excess of revenues over expenses, if any, to the replacement fund. As of December 31, 2009, the Association had reserved \$130,000 as an allowance for uncollectible accounts.

HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

Notes to Financial Statements  
December 31, 2009

Note 4: Federal and State Taxes

For the year ended December 31, 2009, the Association filed its income tax return as a homeowners association. As of December 31, 2009, the Association's net non-exempt function income over related expenses resulted in a loss of \$7,551, resulting in no income tax liability.

Note 5: Supplemental Cash Flow Information

During the year ended December 31, 2009, the Association made no income tax payments and made interest payments of \$479. There were no non-cash financing or investing activities.

Note 6: Future Major Repairs and Replacements

As indicated in Note 2, the AICPA issued an audit and accounting guide, Audits of Common Interest Realty Association, effective for periods beginning on or after September 15, 1991. The Association's Board of Directors had adopted this guide, which requires supplementary information disclosure of the following information regarding each common area component:

1. Estimated remaining useful life
2. Estimated current or future replacement cost
3. The following year funding requirement
4. Fund balance by each common area component

The Association contracted with an outside engineering firm in October 2005 to prepare a reserve study to estimate the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

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 Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

# HIGHLINE MEADOWS CONDOMINIUM ASSOCIATION, INC.

## Supplementary Information on Future Major Repairs and Replacements December 31, 2009 (Unaudited)

In October, 2005, the Board contracted with G. Michael Kelsen, an outside engineer, to conduct a study to estimate the replacement costs of the components of the common property. The following table is based on that study and presents significant information about the components of the common property. The study assumes an inflation rate of 3% and an after-tax interest rate of 3%.

<u>Components</u>	<u>Remaining Estimated Useful Life</u>	<u>Estimated Current Replacement Costs</u>
Roofing	1 - 25	\$ 662,900
Painted surfaces	0 - 5	146,800
Drive materials	0 - 18	250,400
Property access	0 - 7	188,800
Decking	0	116,625
Mechanical equipment	0 - 22	148,000
Property identification	6	5,000
Security	14	2,000
Fencing	0 - 10	43,320
Pool/spa	2 - 12	24,885
Recreation equipment	0 - 6	10,400
Interiors	1	24,500
Flooring	0	7,400
Light fixtures	7	24,000
Irrigation system	9	2,250
Landscaping	0 - 1	31,500
Maintenance equipment	0	15,000
Garage building replacement	0	360,000
Lift station replacement	32	150,000
		<u>\$ 2,213,780</u>
Reserve Fund Balance at December 31, 2009		\$ <u>70,463</u>