

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 and 2010

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OWNERS ASSOCIATION***

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DECEMBER 31, 2011 and 2010

L.R. COMPTON II, LLC
Certified Public Accountants
3595 South Teller Street, Suite 402
Lakewood, Colorado 80235

THE HIGHLINE CLUB OWNERS ASSOCIATION

DECEMBER 31, 2011 and 2010

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Independent Auditor's Report

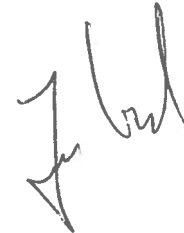
Board of Directors
The Highline Club Owners Association
Denver, Colorado

We have audited the accompanying balance sheets of The Highline Club Owners Association as of December 31, 2011 and 2010 and the related statements of revenue, expenditures and changes in the operating fund and the revenue, expenditures and changes in the replacement fund, and cash flows, operating fund for the years 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 audits.

We conducted our audits 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, and 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 audits provide 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 The Highline Club Owners Association as of December 31, 2011 and 2010 and the results of its operations of the operating fund and of the replacement fund and its cash flows, operating fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

March 12, 2012

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THE HIGHLINE CLUB
OWNERS ASSOCIATION
BALANCE SHEETS

	DECEMBER 31,	
	2011	2010
ASSETS		
<i>Current Assets</i>		
Cash, Operating Fund	\$ 20,318	\$ 18,341
Cash, Replacement Fund	65,952	189,979
Certificates of Deposit, Replacement Fund	150,156	-
Assessments Receivable, Net	1,402	24,682
Prepaid Items	<u>13,669</u>	<u>14,167</u>
<i>Total Current Assets</i>	<u>251,497</u>	<u>247,169</u>
 <i>TOTAL ASSETS</i>	 <u>\$ 251,497</u>	 <u>\$ 247,169</u>
LIABILITIES and FUND BALANCES		
<i>Current Liabilities</i>		
Accounts Payable	\$ 5,141	\$ 23,967
Prepaid Assessments	<u>14,577</u>	<u>18,392</u>
<i>Total Current Liabilities</i>	<u>19,718</u>	<u>42,359</u>
 <i>Fund Balances</i>		
Operating Fund	15,671	14,831
Replacement Fund	<u>216,108</u>	<u>189,979</u>
<i>Total Fund Balances</i>	<u>231,779</u>	<u>204,810</u>
 <i>TOTAL LIABILITIES and FUND BALANCES</i>	 <u>\$ 251,497</u>	 <u>\$ 247,169</u>

See Notes to Financial Statements

THE HIGHLINE CLUB

OWNERS ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the OPERATING FUND

	YEARS ENDED DECEMBER 31,	
	<u>2011</u>	<u>2010</u>
REVENUE		
Assessments	\$ 252,000	\$ 252,000
Supplemental Assessment	-	22,200
Other Income	<u>1,440</u>	<u>1,083</u>
<i>Total Revenue</i>	253,440	275,283
EXPENDITURES		
Maintenance		
Building	30,300	59,876
Grounds	36,163	53,989
Clubhouse	575	2,664
Pool and Hot Tub	7,394	7,117
Snow Removal	<u>2,723</u>	<u>2,361</u>
<i>Total Maintenance</i>	77,155	126,007
Operating Expenses		
Transfer to Replacement Fund	61,200	61,200
Utilities	<u>43,735</u>	<u>39,221</u>
<i>Total Operating Expenses</i>	104,935	100,421
Administrative Expenses		
Bad Debt	2,630	-
Income Taxes	-	-
Insurance	33,311	24,998
Insurance Claim Expense	-	608
Management Fees	23,400	22,800
Office and Communications	5,239	5,347
Professional Fees	<u>5,930</u>	<u>12,155</u>
<i>Total Administrative Expenses</i>	<u>70,510</u>	<u>65,908</u>
Total Expenditures	<u>252,600</u>	<u>292,336</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENDITURES	840	(17,053)
Operating Fund, Beginning of Year	<u>14,831</u>	<u>31,884</u>
OPERATING FUND, End of Year	<u>\$ 15,671</u>	<u>\$ 14,831</u>

See Notes to Financial Statements

THE HIGHLINE CLUB

OWNERS ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the REPLACEMENT FUND

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
<i>REVENUE</i>		
Assessments Transferred from Operating Fund	\$ 61,200	\$ 61,200
Interest	<u>792</u>	<u>559</u>
<i>Total Revenue</i>	61,992	61,759
<i>EXPENDITURES</i>		
Major Repairs and Replacements		
Balcony Membranes	-	8,786
Concrete Pans	1,150	36,071
Deck	3,962	-
Stairs	<u>30,751</u>	<u>3,210</u>
Total Major Repairs and Replacement Expenditures	35,863	48,067
Administrative		
Investment Management	<u>-</u>	<u>140</u>
Total Administrative	<u>-</u>	<u>140</u>
<i>Total Expenditures</i>	35,863	48,207
<i>EXCESS of REVENUE</i>		
<i>OVER EXPENDITURES</i>	26,129	13,552
Replacement Fund, Beginning of Year	<u>189,979</u>	<u>176,427</u>
<i>REPLACEMENT FUND, End of Year</i>	<u>\$ 216,108</u>	<u>\$ 189,979</u>

See Notes to Financial Statements

THE HIGHLINE CLUB OWNERS ASSOCIATION

STATEMENTS of CASH FLOWS, OPERATING FUND

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES</i>		
Excess (Deficit) of Revenue Over Expenditures	\$ 840	\$ (17,053)
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>		
Assessments Receivable, Net	23,280	(20,920)
Prepaid Items	498	(2,934)
Accounts Payable	(18,826)	15,553
Prepaid Assessments	<u>(3,815)</u>	<u>11,141</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	<u>1,977</u>	<u>(14,213)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	1,977	(14,213)
Cash, Beginning of Year	<u>18,341</u>	<u>32,554</u>
<i>CASH, End of Year</i>	<u><u>\$ 20,318</u></u>	<u><u>\$ 18,341</u></u>

See Notes to Financial Statements

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

The Highline Club Owners Association was incorporated July 28, 1983, as a Colorado Nonprofit Corporation. The Association is a membership corporation without certificates or shares of stock, and consists of 60 residential units in 12 buildings, the owners of which are the members. Although more than one person or entity may own a unit, only one vote per unit is allowed at Association meetings.

The Association is charged with the responsibility for the care, maintenance, preservation and architectural control of the unit exteriors and common areas as well as promoting the health, safety and welfare of the residents within the jurisdiction of the Association.

The powers and privileges of the Association are enumerated in its By-Laws and the Declaration of Covenants, Conditions and Restrictions (CC&R's) which provide for an elected Board of Directors to administer the responsibilities above as well as perform the fiscal duties required by a membership corporation. The Board may adopt a set of rules and regulations to assist in the operation of the project. It may further hire and delegate day-to-day responsibility for the operations to a professional association management company.

Significant Accounting Policies

Method of Accounting

The financial statements of The Highline Club Owners Association are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities as prescribed in the governing documents.

Assessments Receivable

The assessments receivable arising from ordinary homeowner activities are, in management's opinion, collectible in full since they constitute a legal debt of the property subject only to a prior first mortgage on the townhome. The total owed to the Association includes any late and/or legal fees incurred in collection.

Due to/from Funds

These receivable/payable accounts arise from normal business activities and represent monies not yet transferred between the funds.

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010
(Continued)

Significant Accounting Policies (Continued)

Prepaid Items

The Highline Club Owners Association may pay certain expenses such as insurance and wastewater invoices on an annual basis. The portions to be expensed in a future accounting period are recorded as prepaid items.

Prepaid Assessments

When members pay their dues/assessments in advance of the period for which they are billed, the Association records it as a liability and subsequently recognizes the income in the appropriate accounting period.

Fund Accounting

The books and records of the Association recognize two primary funds:

Operating Fund: This fund records the daily activities of operating the Association, including the annual budgeting, assessing of the owners, collecting of assessments, disbursing funds under the annual budget and paying income taxes, if any are due, on income unrelated to membership in the Association.

Replacement Fund: This fund records that portion of unit owners' annual assessments restricted to future major maintenance, repair and replacement expenditures as projected in the Association's December 2003 *Engineering Financial Reserve Analysis* Reserve Study. This study forecasts the cash necessary to fund the projects considered advisable to maintain the Association's property in good condition.

This fund is maintained in income producing accounts, the income from which is recorded in the Replacement Fund. Income taxes are, however, charged to the Operating Fund.

Fair Value of Financial Instruments

The carrying value of cash, short-term receivables, short-term payables and long-term debt approximate their fair value at December 31, 2011 and 2010. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010
(Continued)

Significant Accounting Policies (Continued)

Supplemental Assessment

The Board of Directors approved a supplemental assessment of \$370 per unit on December 21, 2010. This assessment was billed as of December 31, 2010 with owners having until April 1, 2011 to make payment.

Income Taxes

The Association is responsible for any income taxes due on its income from sources unrelated to members' ownership of units. Such income may include interest, dividends, and other unrelated income. Income tax filings may be under a special election as an Homeowners Association, or as a normal Corporation. In the years 2011 and 2010, the Association filed standard federal and state corporate tax returns that showed no income tax expense for the year.

Restatements

Certain accounts from the December 31, 2010 financial statements have been reclassified to conform to the presentation at December 31, 2011.

Estimates

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

NOTE 2: Assessments Receivable, Net

The receivables arising from ordinary homeowner activities are, in management's opinion, collectible in full since they constitute a legal debt of the property subject only to a prior first mortgage on the condominium. The total owed to the Association includes any late fees and may include legal fees incurred. Collection of these debts, however, may require the Board of Directors exercise the Association's legal remedies and even if the Association were to act on its possible remedies, the debt and the costs to do so may not be totally recoverable, therefore an allowance for uncollectable accounts has been established of \$2,630 and \$0 at December 31, 2011 and 2010, respectively. Assessments receivable are shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts.

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010
(Continued)

NOTE 3: Replacement Fund

The Association's governing documents direct the Board to accumulate funds for future major maintenance, repairs and replacements. Accumulated funds are held in a separate account and are generally not available for day-to-day operations. The Board commissioned an independent building consultant to prepare a study of the future major maintenance, repair and replacement needs of the common areas of the Association. This study, completed in 2003, projects the need for funds and their possible use from 2004 through 2023. Actual earnings and expenditures may vary from the amounts estimated in the 2003 study, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major maintenance, repairs and replacements. If additional monies are found to be necessary, the Board has the right to increase regular assessments restricted to the Replacement Fund, pass special assessments, or delay the major maintenance and replacement projects until funds are available.

NOTE 4: Subsequent Events

In preparing these financial statements, the The Highline Club Owners Association's Board has evaluated events and transactions for potential recognition or disclosure through March 12, 2012, the date the financial statements were issued.

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011

L.R. COMPTON II, LLC

Certified Public Accountants

3595 S. Teller Street, Suite 402

Lakewood, Colorado 80235

(303) 980-6232

Independent Auditor's Report on Supplementary Information

Members of the Board of Directors
The Highline Club Owners Association
Arapahoe County, Colorado

Our report on our audits of the basic financial statements of The Highline Club Owners Association for 2011 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The *Actual Revenue and Expenditures Versus Budget for the Operating Fund* is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the column marked "Unaudited" on which we express no opinion, has been subjected to the 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 financial statements taken as a whole.

The *Future Major Repairs and Replacements Proposed for the Replacement Fund* summary, on page 12, is not a required part of the basic financial statements of The Highline Club Owners Association but is supplementary information required accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

March 12, 2012

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THE HIGHLINE CLUB OWNERS ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS
BUDGET for the OPERATING FUND
YEAR ENDED DECEMBER 31, 2011

	ACTUAL	BUDGET (UNAUDITED)	VIATION OVER/ UNDER BUDGET
REVENUE			
Assessments	\$ 252,000	\$ 252,000	\$ -
Supplemental Assessment	-	-	-
Other Income	<u>1,440</u>	<u>750</u>	<u>690</u>
<i>Total Revenue</i>	253,440	252,750	690
EXPENDITURES			
Maintenance			
Building	30,300	26,500	(3,800)
Grounds	36,163	41,650	5,487
Clubhouse	575	800	225
Pool & Hot Tub	7,394	7,200	(194)
Snow Removal	2,723	3,000	277
Operations			
Utilities	43,735	46,500	2,765
Administrative Expenses			
Bad Debts	2,630	300	(2,330)
Contingency Expense	-	1,000	1,000
Income Taxes	-	-	-
Insurance	33,311	32,000	(1,311)
Management Fees	23,400	23,400	-
Office and Communications	5,239	4,500	(739)
Professional Fees	<u>5,930</u>	<u>4,700</u>	<u>(1,230)</u>
<i>Total Expenditures</i>	<u>191,400</u>	<u>191,550</u>	<u>150</u>
EXCESS of REVENUE FROM OPERATIONS	62,040	61,200	840
Assessments Transferred to Replacement Fund	<u>61,200</u>	<u>61,200</u>	<u>-</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	\$ <u>840</u>	\$ <u>-</u>	\$ <u>840</u>

* A + variation in revenue represents an amount in excess of the budget
A () variation in expenditures represents an amount in excess of the budget.

THE HIGHLINE CLUB
OWNERS ASSOCIATION

FUTURE MAJOR REPAIRS and REPLACEMENTS
PROPOSED for the REPLACEMENT FUND
DECEMBER 31, 2011

(NOT AUDITED)

The Association's Board of Directors contracted a study in 2003, to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The study was prepared by an independent building consultant who inspected the common areas of the property. Costs were based on estimates, including 4.0% inflation, offset by 2.5% earnings, 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 following table is based on the 2003 study and presents significant information about the components, estimated lives and costs of common property:

Components	First Work	# of Cycles	2003 Estimated Total Replacement Cost
Topography and Drainage	2004	1	\$ 18,800
Paving and Curbing	2005	1 to 7	179,759
Flatwork	2004	1 to 5	291,506
Facade	2004	1	1,216,504
Roofing	2004	1	932,444
Mechanical	2005	1 to 3	36,400
Amenities	2005	1 to 3	115,843
Interior	2009	1 to 2	<u>46,868</u>
TOTAL			<u>\$ 2,838,124</u>