

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 and 2011

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OWNERS ASSOCIATION***

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DECEMBER 31, 2012 and 2011

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

THE HIGHLINE CLUB OWNERS ASSOCIATION

DECEMBER 31, 2012 and 2011

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The Highline Club Owners Association
Denver, Colorado

We have audited the accompanying financial statements of The Highline Club Owners Association, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, expenditures and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lakewood, Colorado
May 6, 2013

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THE HIGHLINE CLUB
OWNERS ASSOCIATION
BALANCE SHEETS

	DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 9,691	\$ 16,442	\$ 26,133	\$ 86,270
Certificates of Deposit	-	150,733	150,733	150,156
Assessments Receivable, Net	1,192	-	1,192	1,402
Prepaid Items	15,337	-	15,337	13,669
Interfund Balances	-	-	-	-
TOTAL ASSETS	\$ 26,220	\$ 167,175	\$ 193,395	\$ 251,497
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and				
Accrued Liabilities	\$ 6,270	\$ -	\$ 6,270	\$ 5,141
Deferred Assessments	10,047	-	10,047	14,577
<i>Total Liabilities</i>	16,317	-	16,317	19,718
FUND BALANCES				
Operating Fund (Deficit)	9,903	-	9,903	15,671
Replacement Fund	-	167,175	167,175	216,108
<i>Total Fund Balances</i>	9,903	167,175	177,078	231,779
TOTAL LIABILITIES and FUND BALANCES	\$ 26,220	\$ 167,175	\$ 193,395	\$ 251,497

See Notes to Financial Statements

THE HIGHLINE CLUB
OWNERS ASSOCIATION
STATEMENTS of REVENUE, EXPENDITURES
and CHANGES in the FUND BALANCES

	YEARS ENDED DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 190,800	\$ 61,200	\$ 252,000	\$ 252,000
Other Member Income	2,240	-	2,240	1,440
Interest	-	773	773	792
Total Revenue	<u>193,040</u>	<u>61,973</u>	<u>255,013</u>	<u>254,232</u>
EXPENDITURES				
Maintenance				
Buildings	27,650	-	27,650	30,300
Grounds	42,451	-	42,451	36,163
Clubhouse	455	-	455	575
Pool/Hot Tub	8,643	-	8,643	7,394
Snow Removal	<u>1,560</u>	<u>-</u>	<u>1,560</u>	<u>2,723</u>
<i>Total Maintenance</i>	<u>80,759</u>	<u>-</u>	<u>80,759</u>	<u>77,155</u>
Operating				
Utilities	<u>43,067</u>	<u>-</u>	<u>43,067</u>	<u>43,735</u>
<i>Total Operating</i>	<u>43,067</u>	<u>-</u>	<u>43,067</u>	<u>43,735</u>
Replacement Projects	-	110,906	110,906	35,863
Administrative				
Bad Debts	(238)	-	(238)	2,630
Income Taxes	-	-	-	-
Insurance	35,727	-	35,727	33,311
Management Fees	23,400	-	23,400	23,400
Office and Communications	6,959	-	6,959	5,239
Professional Fees	<u>9,134</u>	<u>-</u>	<u>9,134</u>	<u>5,930</u>
<i>Total Administrative</i>	<u>74,982</u>	<u>-</u>	<u>74,982</u>	<u>70,510</u>
Total Expenditures	<u>198,808</u>	<u>110,906</u>	<u>309,714</u>	<u>227,263</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	(5,768)	(48,933)	(54,701)	26,969
Fund Balances, Beginning of Year	<u>15,671</u>	<u>216,108</u>	<u>231,779</u>	<u>204,810</u>
FUND BALANCES, End of Year	\$ <u>9,903</u>	\$ <u>167,175</u>	\$ <u>177,078</u>	\$ <u>231,779</u>

See Notes to Financial Statements

THE HIGHLINE CLUB OWNERS ASSOCIATION

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ (5,768)	\$ (48,933)	\$ (54,701)	\$ 26,969
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Assessments Receivable, Net	210	-	210	23,280
Accrued Interest Receivable	-	-	-	-
Prepaid Items	(1,668)	-	(1,668)	498
Accounts Payable and Accrued Liabilities	1,129	-	1,129	(18,826)
Deferred Assessments	<u>(4,530)</u>	<u>-</u>	<u>(4,530)</u>	<u>(3,815)</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	(10,627)	(48,933)	(59,560)	28,106
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	(577)	(577)	(40,152)
Interfund Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>-</u>	<u>(577)</u>	<u>(577)</u>	<u>(40,152)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	(10,627)	(49,510)	(60,137)	(12,046)
Cash, Beginning of Year	<u>20,318</u>	<u>65,952</u>	<u>86,270</u>	<u>98,316</u>
<i>CASH, End of Year</i>	<u>\$ 9,691</u>	<u>\$ 16,442</u>	<u>\$ 26,133</u>	<u>\$ 86,270</u>
<i>Supplemental Disclosure</i>				
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See Notes to Financial Statements

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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&Rs) 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.

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.

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011
(Continued)

Significant Accounting Policies (Continued)

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash to be transferred from one fund to the other, if any, is recorded as interfund balances from one fund to the other.

Deferred 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.

Revenue

Assessments, as set by the annual budget to be collected from homeowners, represent the major source of revenue for the Association. Additionally, assessments paid in arrears incur a late charge and should legal collection steps become necessary the legal fees are recorded with the late charges as other income. Also, fines imposed for infractions under the rules and regulations are recorded as other income.

THE HIGHLINE CLUB
OWNERS ASSOCIATION
NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011
(Continued)

Significant Accounting Policies (Continued)

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 2012 and 2011, the Association filed standard federal and state corporate tax returns that showed no income tax expense for the year.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. The Highline Club Owners Association maintains its cash balances in both national banks and with investment firms. The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at December 31, 2012, for interest earning balances in national banks, and unlimited insurance on demand deposits. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end December 31, 2012, the Association has \$-0- in uninsured deposits.

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, 2012 and 2011. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

Reclassifications

Certain accounts from the December 31, 2011 financial statements have been reclassified to conform to the presentation at December 31, 2012.

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.

THE HIGHLINE CLUB
OWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

NOTE 2: Certificates of Deposit

As of December 31, 2012, the portfolio of the replacement fund consists of three certificates of deposit. Maturity dates range from March 2013 to September 2013 with interest rates ranging from 0.200% to 0.500%. At December 31, 2011, there were three certificates of deposit. Maturity dates ranged from March 2012 or September 2012 with interest rates ranging from 0.250% to 0.650%.

NOTE 3: 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 \$0 and \$2,630 at December 31, 2012 and 2011, respectively. Assessments receivable are shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts.

NOTE 4: 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 5: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the 2003 "Reserve Study", and on owners' reports of physical conditions. During the years covered herein, the following projects were undertaken and completed by the Replacement Fund:

THE HIGHLINE CLUB
OWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011
(Continued)

NOTE 5: Replacement Projects (Continued)

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Concrete Pans	\$ -	\$ 1,150
Decks	22,556	3,962
Exterior Siding	19,775	-
Stairs	<u>68,575</u>	<u>30,751</u>
Total Replacement Projects	<u>\$ 110,906</u>	<u>\$ 35,863</u>

NOTE 6: Contingencies

The Association is a party to various legal actions normally associated with homeowner's associations, such as the collection of delinquent accounts and owner compliance with the covenants, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 7: 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 May 6, 2013, the date the financial statements were issued.

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

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 December 31, 2012 and 2011 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information for the year ended December 31, 2012, *Actual Revenue and Expenditures Versus Budget for the Operating Fund*, on page 12, 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* presented on page 13, is not a required part of the basic financial statements of The Highline Club Owners Association at December 31, 2012 but is supplementary information required by American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

May 6, 2013

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THE HIGHLINE CLUB OWNERS ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS
BUDGET for the OPERATING FUND
YEAR ENDED DECEMBER 31, 2012

	ACTUAL	BUDGET (UNAUDITED)	VARIATION OVER/ UNDER BUDGET
REVENUE			
Assessments	\$ 252,000	\$ 252,000	\$ -
Other Income	<u>2,240</u>	<u>750</u>	<u>1,490</u>
<i>Total Revenue</i>	254,240	252,750	1,490
EXPENDITURES			
Maintenance			
Building	27,650	26,500	(1,150)
Grounds	42,451	41,650	(801)
Clubhouse	455	800	345
Pool/Hot Tub	8,643	7,200	(1,443)
Snow Removal	1,560	3,000	1,440
Operations			
Utilities	43,067	46,500	3,433
Administrative Expenses			
Bad Debts	(238)	300	538
Income Taxes	-	-	-
Insurance	35,727	32,000	(3,727)
Management Fees	23,400	23,400	-
Office and			
Communications	6,959	5,500	(1,459)
Professional Fees	<u>9,134</u>	<u>4,700</u>	<u>(4,434)</u>
<i>Total Expenditures</i>	<u>198,808</u>	<u>191,550</u>	<u>(7,258)</u>
EXCESS of REVENUE			
FROM OPERATIONS	55,432	61,200	(5,768)
Assessments Transferred to			
Replacement Fund	<u>61,200</u>	<u>61,200</u>	<u>-</u>
EXCESS (DEFICIT) of			
REVENUE OVER			
EXPENDITURES	\$ <u>(5,768)</u>	\$ <u>-</u>	\$ <u>(5,768)</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, 2012

(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:

<u>Components</u>	<u>First Work</u>	<u># of Cycles</u>	<u>2003 Estimated Total Replacement Cost</u>
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>