

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014 and 2013

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OWNERS ASSOCIATION***

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SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014 and 2013

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

THE HIGHLINE CLUB OWNERS ASSOCIATION

DECEMBER 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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
February 24, 2015

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THE HIGHLINE CLUB OWNERS ASSOCIATION

BALANCE SHEETS

	DECEMBER 31,			
	2014			2013
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS				
Cash	\$ 52,751	\$ 678,921	\$ 731,672	\$ 8,611
Certificates of Deposit	-	-	-	151,199
Assessments Receivable, Net	1,673	-	1,673	51,390
Prepaid Items	30,842	-	30,842	32,464
Interfund Balances	<u>(7,597)</u>	<u>7,597</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>77,669</u>	\$ <u>686,518</u>	\$ <u>764,187</u>	\$ <u>243,664</u>
 LIABILITIES and FUND BALANCES				
LIABILITIES				
Cash Overdraft	\$ -	-	-	2,145
Accounts Payable and Accrued Liabilities	8,408	\$ -	\$ 8,408	\$ 4,733
Deferred Assessments	<u>15,591</u>	<u>-</u>	<u>15,591</u>	<u>10,221</u>
<i>Total Liabilities</i>	23,999	-	23,999	17,099
 FUND BALANCES				
Operating Fund	53,670	-	53,670	46,755
Replacement Fund	<u>-</u>	<u>686,518</u>	<u>686,518</u>	<u>179,810</u>
<i>Total Fund Balances</i>	<u>53,670</u>	<u>686,518</u>	<u>740,188</u>	<u>226,565</u>
 TOTAL LIABILITIES and FUND BALANCES	\$ <u>77,669</u>	\$ <u>686,518</u>	\$ <u>764,187</u>	\$ <u>243,664</u>

See Notes to Financial Statements

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

	YEARS ENDED DECEMBER 31,			
	2014			2013
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Assessments	\$ 221,330	\$ 102,670	\$ 324,000	\$ 252,000
Special Assessment	-	600,910	600,910	60,000
Other Member Income	2,555	-	2,555	3,164
Interest	-	1,365	1,365	512
Total Revenue	<u>223,885</u>	<u>704,945</u>	<u>928,830</u>	<u>315,676</u>
EXPENDITURES				
Maintenance				
Buildings	24,726	-	24,726	36,503
Grounds	45,470	-	45,470	48,611
Clubhouse	1,503	-	1,503	1,504
Pool/Hot Tub	6,164	-	6,164	7,864
Snow Removal	4,655	-	4,655	1,742
<i>Total Maintenance</i>	<u>82,518</u>	<u>-</u>	<u>82,518</u>	<u>96,224</u>
Operating				
Utilities	<u>43,761</u>	<u>-</u>	<u>43,761</u>	<u>41,501</u>
<i>Total Operating</i>	<u>43,761</u>	<u>-</u>	<u>43,761</u>	<u>41,501</u>
Replacement Projects	-	198,237	198,237	49,077
Administrative				
Bad Debts	8,000	-	8,000	-
Income Taxes	-	-	-	-
Insurance	48,469	-	48,469	45,300
Management Fees	23,400	-	23,400	23,400
Office and Communications	4,774	-	4,774	4,513
Professional Fees	6,048	-	6,048	6,174
<i>Total Administrative</i>	<u>90,691</u>	<u>-</u>	<u>90,691</u>	<u>79,387</u>
Total Expenditures	<u>216,970</u>	<u>198,237</u>	<u>415,207</u>	<u>266,189</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	6,915	506,708	513,623	49,487
Fund Balances, Beginning of Year	<u>46,755</u>	<u>179,810</u>	<u>226,565</u>	<u>177,078</u>
FUND BALANCES, End of Year	\$ <u>53,670</u>	\$ <u>686,518</u>	\$ <u>740,188</u>	\$ <u>226,565</u>

See Notes to Financial Statements

THE HIGHLINE CLUB OWNERS ASSOCIATION

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ 6,915	\$ 506,708	\$ 513,623	\$ 49,487
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Assessments Receivable, Net	49,717	-	49,717	(50,198)
Prepaid Items	1,622	-	1,622	(17,127)
Accounts Payable and Accrued Liabilities	3,675	-	3,675	(1,537)
Deferred Assessments	<u>5,370</u>	<u>-</u>	<u>5,370</u>	<u>174</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	67,299	506,708	574,007	(19,201)
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	151,199	151,199	(466)
Interfund Transfers	<u>(12,403)</u>	<u>12,403</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>(12,403)</u>	<u>163,602</u>	<u>151,199</u>	<u>(466)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	54,896	670,310	725,206	(19,667)
Cash, Beginning of Year	<u>(2,145)</u>	<u>8,611</u>	<u>6,466</u>	<u>26,133</u>
<i>CASH (Overdraft), End of Year</i>	\$ <u>52,751</u>	\$ <u>678,921</u>	\$ <u>731,672</u>	\$ <u>6,466</u>
Supplemental Disclosure				
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, 2014 and 2013

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, 2014 and 2013
(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, if any, are 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, 2014 and 2013
(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 2014 and 2013, the Association filed standard federal and state corporate tax returns that showed no income tax expense for the year.

Concentration of Credit Risk

The Highline Club Owners Association maintains its cash balances at a financial institution. The balances at any institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2014 and 2013, the Association's uninsured cash balances total \$481,672 and \$0, respectively.

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, 2014 and 2013. 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, 2013 financial statements have been reclassified to conform to the presentation at December 31, 2014.

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, 2014 and 2013
(Continued)

NOTE 2: Certificates of Deposit

As of December 31, 2014, all certificates of deposit had been redeemed. At December 31, 2013, there were three certificates of deposit. Maturity dates ranged from March 2014 or September 2014 with interest rates ranging from 0.200% to 0.400%.

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. Assessments receivable are shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts. At December 31, 2014 and 2013, \$8,000 and \$0, respectively, has been established as an 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: Special Assessment

The Association membership approved a \$10,000 per unit special assessment to be paid during 2014. All funds were earmarked for the Replacement Fund.

In 2013, the Board approved a \$1,000 per unit supplementary assessment in November 2013 for the Operating Fund. The assessment was invoiced in December 2013 with payment due by January 31, 2014.

THE HIGHLINE CLUB
OWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013
(Continued)

NOTE 6: 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 completed by the Replacement Fund:

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Clubhouse	945	-
Decks	\$ 5,955	\$ 14,677
Exterior Siding and Trim	89,939	-
Recreation	99,973	-
Special Assessment Expense	1,425	-
Stairs	-	34,400
Total Replacement Projects	<u>\$ 198,237</u>	<u>\$ 49,077</u>

NOTE 7: 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 8: 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 February 24, 2015, the date the financial statements were issued.

***THE HIGHLINE CLUB
OWNERS ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

L.R. COMPTON II, LLC
Certified Public Accountants

***Independent Auditor's Report on
Supplementary Information***

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

We have audited the financial statements of The Highline Club Owners Association as of and for the years ended December 31, 2014 and 2013, and our report thereon dated February 24, 2015, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The *Actual Revenue and Expenditures Versus Budget for the Operating Fund* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Future Major Repairs and Replacements Proposed for the Replacement Fund*, which is the responsibility of the Association's management, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Lakewood, Colorado
February 24, 2015

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THE HIGHLINE CLUB OWNERS ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS
BUDGET for the OPERATING FUND
YEAR ENDED DECEMBER 31, 2014

	ACTUAL	BUDGET (UNAUDITED)	VARIATION OVER/ UNDER BUDGET
REVENUE			
Assessments	\$ 324,000	\$ 324,000	\$ -
Other Income	<u>2,555</u>	<u>2,250</u>	<u>305</u>
<i>Total Revenue</i>	326,555	326,250	305
EXPENDITURES			
Maintenance			
Building	24,726	33,669	8,943
Grounds	45,470	48,668	3,198
Clubhouse	1,503	1,301	(202)
Pool/Hot Tub	6,164	8,523	2,359
Snow Removal	4,655	1,821	(2,834)
Operations			
Utilities	43,761	42,869	(892)
Administrative Expenses			
Bad Debts	8,000	1,000	(7,000)
Income Taxes	-	-	-
Insurance	48,469	51,040	2,571
Management Fees	23,400	23,400	-
Office and			
Communications	4,774	5,789	1,015
Professional Fees	<u>6,048</u>	<u>5,500</u>	<u>(548)</u>
<i>Total Expenditures</i>	<u>216,970</u>	<u>223,580</u>	<u>6,610</u>
EXCESS of REVENUE FROM OPERATIONS	109,585	102,670	6,915
Assessments Transferred to Replacement Fund	<u>102,670</u>	<u>102,670</u>	<u>-</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	\$ <u>6,915</u>	\$ <u>-</u>	\$ <u>6,915</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, 2014

(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 replacement 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>