

**HILAND HILLS TOWNHOUSE
OWNERS ASSOCIATION**

FINANCIAL STATEMENTS

Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hiland Hills Townhouse Owners Association
Denver, Colorado

I have audited the accompanying balance sheet of Hiland Hills Townhouse Owners Association as of June 30, 2011, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hiland Hills Townhouse Owners Association as of June 30, 2011, 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 Major Repairs and Replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Denver, Colorado
October 26, 2011

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

BALANCE SHEET

JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash and cash equivalents	\$ 20,703	\$ 413,260	\$ 433,963
Accounts receivable, net of allowance for doubtful accts of \$12,750	50,511		50,511
Prepaid insurance	9,982		9,982
Furniture and equipment, net of accumulated depreciation of \$21,809	-		-
Loan fees, net of amortization of \$2,567	4,433		4,433
Interfund receivable(payable)	(11,585)	11,585	-
Common area property	-	-	-
TOTAL ASSETS	\$ 74,044	\$ 424,845	\$ 498,889
LIABILITIES			
Prepaid assessments	10,298		10,298
Accounts payable	10,063		10,063
Loan payable - NCB Bank	-	253,803	253,803
TOTAL LIABILITIES	20,361	253,803	274,164
CONTINGENCIES			
	-	-	-
HOMEOWNERS' EQUITY			
Fund balance(deficit)	53,683	171,042	224,725
TOTAL HOMEOWNERS' EQUITY	53,683	171,042	224,725
TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$ 74,044	\$ 424,845	\$ 498,889

The accompanying notes are an integral part of the financial statements.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES
AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Homeowner assessments	\$ 411,761	\$ 45,679	\$ 457,440
Late fees and other assessments	10,694		10,694
Clubhouse	105		105
Special assessment	-	93,006	93,006
Interest income	-	995	995
TOTAL REVENUES	422,560	139,680	562,240
EXPENSES			
Payroll and related expenses	89,546		89,546
Insurance	67,925		67,925
Water and sewer	76,275		76,275
Building maintenance	44,520	20,025	64,545
Grounds maintenance	28,199		28,199
Gas and electric	21,420		21,420
Trash removal	12,939		12,939
Professional fees	7,305		7,305
Contract labor	1,057		1,057
Bad debt	13,999		13,999
Administrative	7,166		7,166
Management fees	9,792		9,792
Holiday events	325		325
Clubhouse and pool maintenance	6,309		6,309
Interest expense	-	19,380	19,380
TOTAL EXPENSES	386,777	39,405	426,182
EXCESS (DEFICIENCY) OR REVENUES OVER EXPENSES	35,783	100,275	136,058
OTHER COMPREHENSIVE INCOME(LOSS):			
Unrealized gain(loss) on available-for-sale securities	-	-	-
COMPREHENSIVE INCOME (LOSS)	\$ 35,783	\$ 100,275	\$ 136,058

The accompanying notes are an integral part of the financial statements.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION
STATEMENT OF CHANGES IN HOMEOWNERS EQUITY
YEAR ENDED JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
FUND BALANCE, BEGINNING OF YEAR	\$ 17,900	\$ 70,767	\$ -	\$ 88,667
Excess (deficit) of revenues over expenses	35,783	100,275		136,058
Change in value of available-for-sale securities	-	-	-	-
FUND BALANCE, END OF YEAR	\$ 53,683	\$ 171,042	\$ -	\$ 224,725

The accompanying notes are an integral part of the financial statements.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 35,783	\$ 100,275	\$ 136,058
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase)decrease in accounts rec- homeowners	(21,627)		(21,627)
(Increase)decrease in prepaid expenses	(3,278)		(3,278)
(Increase)decrease in loan fees	700		700
(Increase)decrease in accrued interest receivable		101	101
Increase(decrease) in accounts payable	7,739	(28,879)	(21,140)
Increase(decrease) in prepaid assessments	(1,963)		(1,963)
Interfund transfers	(22,168)	22,168	-
Net Cash Provided by Operating Activities	(4,814)	93,665	88,851
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on Loan		(61,622)	(61,622)
Net Cash Provided by Financing Activities	-	(61,622)	(61,622)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(4,814)	32,043	27,229
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	25,517	381,217	406,734
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 20,703	\$ 413,260	\$ 433,963
SUPPLEMENTAL INFORMATION:			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ 19,380	\$ 19,380

The accompanying notes are an integral part of the financial statements.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 1 - Organization

Hiland Hills Townhouse Owners Association (the Association), a not-for-profit corporation organized under the laws of Colorado in 1978. The Association consists of owners of 170 units. The development is located in Denver, Colorado. The objectives of the Association are to maintain, manage, and preserve the common property on behalf of the members of the Association.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements and related income tax returns for the Association have been prepared in accordance with the accrual method of accounting.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts in accordance with principles of fund accounting. Fund accounting requires that resources for various purposes be classified for accounting and reporting purposes into funds established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Association are reported in two self-balancing fund groups as follows:

Operating fund includes unrestricted and restricted resources and represents the portion of expendable funds that is available for support of annual maintenance and operational activities.

Replacement fund represents resources collected and expended for, or designated by the Board, for the major repair or replacement of common area property.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 2 – Summary of Significant Accounting Policies (continued)

Recognition of Assets and Depreciation Policy

Furniture and equipment acquired with the Association's funds is recorded at cost and depreciated by the straight line method over seven years. Since the Association cannot dispose of the common property, it is not recognized as an asset on the Association's financial statements. Major repairs and replacements to the common property are recorded as disbursements in the reserve fund in accordance with generally accepted accounting principles applicable to homeowners associations. The common property consists of perimeter fences, landscaping and improvements, irrigation and drainage systems, and lighting.

Equipment is recorded at acquisition cost. Depreciation is computed using the straight line method over seven years.

Unless otherwise disclosed, the carrying amount of financial instruments approximates their fair value because of their short-term nature.

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 reporting period. Actual results could differ from those estimates.

Note 3 - Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Association's cash and cash equivalents at June 30, 2011 consisted of \$ 20,703 in the operating fund and money market funds of \$413,260 in the replacement fund.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 5 - Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, and major repairs and replacements. Accounts receivable from homeowners at June 30, 2011 represent assessments, late fees and other charges due from homeowners.

The Association's Condominium Declaration provides various collection remedies for delinquent assessments including the filing of liens, foreclosing on the homeowner, and obtaining judgment on other assets of the homeowner.

The annual budget and assessments of members are determined by the Board of Directors. Assessments are based on the board's determination of the needs of the Association to pay its operating expenses and provide for adequate reserve additions. In 2010-2011, the annual assessment for the Association was \$457,440 of which \$45,679 was designated to the replacement fund. The Association uses any excess operating funds at the end of the operating year to offset its operating budget needs for the following year.

Note 6 - Income Taxes

The Association elected to file its income tax return, form 1120-H, as a homeowners association, under Internal Revenue Code Section 528, for the year ended June 30, 2011. Under that Section, the Association is not taxed on income and expenses related to its membership activities, which is the acquisition, construction, management, maintenance and care of Association property. Net non-membership income, which generally includes earned interest and revenues received from nonmembers, is taxed at a 30% by the federal government and at 4.63% by the State of Colorado.

Note 7 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings or investment accounts and generally are not available for expenditures for normal operations.

During the year ended June 30, 2011, assessments of \$45,679 were designated for replacement reserves. In addition, \$995 of interest income from investments was designated for the replacement fund. The Association incurred \$39,405 of reserve expenses during 2010-2011.

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Note 7 - Future Major Repairs and Replacements (continued)

The Association conducted a reserve study in January 1996, completed by Wiss, Janney, Elstner and Associates, Inc. The supplementary information provided is based on this study. Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income 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 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.

Note 8 - Note payable

In 2008, the Association obtained a loan from NCB Bank to pay for the repair and replacement project. The original amount of the loan was \$400,000. The terms of the note require monthly payments of \$ 6,848.45 principal plus the interest on the unpaid balance at a rate of 7.15%. At June 30, 2011 the remaining unpaid balance was \$253,803.

Note 9 - Contingencies

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

HILAND HILLS TOWNHOUSE OWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

JUNE 30, 2011

(UNAUDITED)

Wiss, Janney, Elstner Associates, Inc. conducted a study in January 1996 to estimate the remaining useful lives and replacement costs of the elements of common property. The estimates were based on the current replacement costs at the time with no adjustment for inflation. The following table is based on that study.

<u>Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Wood siding and trim	7 years	\$ 370,200
Exterior paint	3 years	85,000
Roofs	1 - 8 years	651,104
Drains and downspouts	2 years	52,600
Carports	10 years	60,200
Asphalt patching and sealing	10 - 18 years	68,500
Concrete	20 years	135,300
Other	5 - 20 years	22,300
Perimeter fence	1 year	15,000
Unit and dumpster fences	30 years	53,000
Pool surface	11 years	5,500
Pool and clubhouse equipment	8 - 20 years	22,127
Maintenance equipment	10 years	16,000
TOTALS		<hr style="border-top: 1px dashed black;"/> \$ 1,556,831 <hr style="border-top: 3px double black;"/>

The reserve fund balance at June 30, 2011 had an accumulated balance of \$171,042.