

**ARBORS AT MOUNTAIN SHADOWS  
CONDOMINIUMS OWNERS ASSOCIATION, INC.**

**Financial Statements  
For the Year Ended December 31, 2012**

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Arbors at Mountain Shadows Condominium Owners Association, Inc.  
Colorado Springs, Colorado

**Report on the Financial Statements**

We have audited the accompanying financial statements of Arbors at Mountain Shadows Condominium Owners Association, Inc., which comprise the balance sheet as of December 31, 2012, and the related statements of revenue, expenses, and changes in fund balances and cash flows for the year 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.

**Auditors' Responsibility**

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 required 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 Arbors at Mountain Shadows Condominium Owners Association, Inc. as of December 31, 2012, 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.

### **Other Matter**

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

*Waugh & Goodwin, LLP*  
Colorado Springs, Colorado  
April 19, 2013

ARBORS AT MOUNTAIN SHADOWS CONDOMINIUM OWNERS ASSOCIATION, INC.

Balance Sheet

December 31, 2012

ASSETS

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 158,309	\$ 96,014	\$ 254,323
Assessments receivable	10,390		10,390
Prepaid insurance	<u>3,850</u>		<u>3,850</u>
TOTAL ASSETS	<u>\$ 172,549</u>	<u>\$ 96,014</u>	<u>\$ 268,563</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES:			
Accounts payable	\$ 10,110	\$	\$ 10,110
Assessments received in advance	<u>7,675</u>		<u>7,675</u>
Total current liabilities	17,785		17,785
FUND BALANCES	<u>154,764</u>	<u>96,014</u>	<u>250,778</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 172,549</u>	<u>\$ 96,014</u>	<u>\$ 268,563</u>

See Notes to Financial Statements

ARBORS AT MOUNTAIN SHADOWS CONDOMINIUM OWNERS ASSOCIATION, INC.  
Statement of Revenue, Expenses, and Changes in Fund Balances  
For the Year Ended December 31, 2012

	Operating Fund	Replacement Reserve Fund	Total
REVENUE:			
Homeowner assessments	\$ 274,176	\$	\$ 274,176
Insurance proceeds	160,728		160,728
Fines & late charges	2,740		2,740
Interest income	2,237	97	2,334
Clubhouse income	60		60
Total revenue	439,941	97	440,038
EXPENSES:			
Waldo Canyon fire expenses	55,174		55,174
Miscellaneous building expense	35,557		35,557
Water	34,187		34,187
Insurance	30,608		30,608
Painting	16,925	7,000	23,925
Fire hydrant/control system	22,815		22,815
Management fees	18,000		18,000
Hot tub repair	14,610		14,610
Electric	14,406		14,406
Landscaping repair & maintenance	14,369		14,369
Snow removal	11,593		11,593
Accounting fees	9,406		9,406
Clubhouse	8,895		8,895
Trash removal	8,656		8,656
Administration	6,716		6,716
General maintenance	6,480		6,480
Bad debt expense	5,832		5,832
Legal fees	5,226		5,226
Plumbing repairs	5,209		5,209
Stucco repairs	3,505		3,505
Gas	3,331		3,331
Sprinkler repairs	3,213		3,213
Roof repairs	1,665		1,665
Concrete repairs	1,400		1,400
Alarm monitoring	692		692
Janitorial	689		689
Total expenses	339,159	7,000	346,159
EXCESS OF REVENUE OVER (UNDER) EXPENSES	100,782	(6,903)	93,879
FUND BALANCES, beginning of year	58,982	97,917	156,899
TRANSFER BETWEEN FUNDS	(5,000)	5,000	
FUND BALANCES, end of year	<u>\$ 154,764</u>	<u>\$ 96,014</u>	<u>\$ 250,778</u>

See Notes to Financial Statements

ARBORS AT MOUNTAIN SHADOWS CONDOMINIUM OWNERS ASSOCIATION, INC.

Statement of Cash Flows

For the Year Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenue over (under) expenses	\$ 100,782	\$ (6,903)	\$ 93,879
Adjustments to reconcile excess of revenue over expenses to net cash provided (used) by operating activities:			
Changes in assets and liabilities:			
Decrease in assessments receivable	13,509		13,509
Increase in prepaid insurance	(3,850)		(3,850)
Increase in accounts payable	<u>10,110</u>		<u>10,110</u>
Total adjustments	<u>19,769</u>		<u>19,769</u>
Net cash provided (used) by operating activities	120,551	(6,903)	113,648
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfer between funds	<u>(5,000)</u>	<u>5,000</u>	
Net cash provided (used) by financing activities	<u>(5,000)</u>	<u>5,000</u>	
NET INCREASE IN CASH	115,551	(1,903)	113,648
CASH AND CASH EQUIVALENTS, beginning of year	<u>42,758</u>	<u>97,917</u>	<u>140,675</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 158,309</u>	<u>\$ 96,014</u>	<u>\$ 254,323</u>

See Notes to Financial Statements

## Notes to Financial Statements

For the Year Ended December 31, 2012

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The Association was incorporated in 1992 as a Colorado nonprofit corporation to provide for the maintenance, preservation and architectural control of the Common Area and to promote the recreation, health, safety, and welfare of the residents within the Association, pursuant to the Condominium Declaration for Arbors at Mountain Shadows Condo Owners Association, Inc. The development consists of 140 residential units located in Colorado Springs, Colorado.

#### Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting. Financial resources are classified for accounting purposes into two funds. The operating fund is used to account for the general operations of the Association. The replacement reserve fund is used to accumulate monies designated for future major repairs and replacements.

#### Income Tax

The Association has elected to be taxed as a homeowner association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of the Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed by the federal government and by the State of Colorado.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2010 to 2012 remain open to examination by the Internal Revenue Service; Colorado income tax returns for 2009 to 2012 are open to examination. The Association believes it does not have any uncertain tax positions that are material to the financial statements.

## Notes to Financial Statements

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Cash and Cash Equivalents

Cash and cash equivalents consist of the Association's checking and money market accounts.

#### Use of Estimates in Preparation of Financial Statements

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 the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

#### Supplemental Cash Flow Disclosures

During the year ended December 31, 2012, the Association did not pay any income taxes or interest.

#### Assessments Receivable

Assessments receivable are stated at the amount the Association expects to collect from balances outstanding at year-end. Based on the Association's experience with owners having outstanding balances, it has concluded that any losses on balances outstanding at December 31, 2012 will not be material. Therefore, no allowance for doubtful accounts is considered necessary.

#### Property

Real property and common areas acquired by the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. According to the Association's governing documents, the common elements shall remain undivided and shall not be subject to participation.

#### Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 19, 2013, the date that the financial statements were available to be issued.



## Notes to Financial Statements

### B. REPLACEMENT RESERVE FUNDS

Article IX, Section 11.3 of the Declaration states that the annual assessment set by a vote of the members shall include amounts for the creation of reasonable reserves for the periodic replacement, repair and maintenance of the common area and buildings.

### C. RELATED PARTY TRANSACTIONS

The Association's Board President also serves as the property manager for the Association. During 2012, she was paid \$18,000 in compensation as property manager; \$1,077 for reimbursed miscellaneous office expenses; and \$8,400 for serving as project manager in overseeing the repairs necessitated by the Waldo Canyon Fire. The \$8,400 was reimbursed by the Association's insurance carrier.

### D. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Board is funding for future major repairs and replacements over the remaining useful lives of the components. Actual expenditures may vary from estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement reserve 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 or pass special assessments.