

**Kipling Sun Townhomes Association, Inc.**

Financial Statements

For the Year Ended December 31, 2009

With Supplementary Information

With Independent Auditors' Report

# Kipling Sun Townhomes Association, Inc.

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# **Brashier & Foss, CPAs, PC**

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## **Independent Auditors' Report**

To the Board of Directors of  
Kipling Sun Townhomes Association, Inc.

We have audited the accompanying balance sheet of Kipling Sun Townhomes Association, Inc. as of December 31, 2009, 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 Kipling Sun Townhomes Association, Inc.'s management. 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 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. An audit 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 audit provides 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 Kipling Sun Townhomes Association, Inc. as of December 31, 2009, 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 about Future Major Repairs and Replacements on page nine is not a required part of the basic financial statements of Kipling Sun Townhomes Association, Inc. but is supplementary information required by 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Brashier & Foss, CPAs, PC*

Brashier & Foss, CPAs, PC

July 6, 2010

**Kipling Sun Townhomes Association, Inc.**  
**Balance Sheet**  
**December 31, 2009**

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 35,129	\$ 163,410	\$ 198,539
Certificate of Deposits		194,831	194,831
Accrued Interest Receivable		2,402	2,402
Assessments Receivable	409		409
Prepaid Expenses	9,038		9,038
<b>Total Assets</b>	<b>\$ 44,576</b>	<b>\$ 360,643</b>	<b>\$ 405,219</b>
 <b>LIABILITIES AND FUND BALANCE</b>			
Accounts Payable	\$ 7,121	\$ -	\$ 7,121
Assessments Received in Advanced	13,943		13,943
<b>Total Liabilities</b>	<b>21,064</b>	<b>-</b>	<b>21,064</b>
<b>Fund Balance</b>	<b>23,512</b>	<b>360,643</b>	<b>384,155</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 44,576</b>	<b>\$ 360,643</b>	<b>\$ 405,219</b>

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

**Kipling Sun Townhomes Association, Inc.**  
**Statement of Revenues, Expenses,**  
**And Changes in Fund Balance**  
**For the Year Ended December 31, 2009**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Member Assessments	\$ 178,629	\$ 77,571	\$ 256,200
Interest	165	2,689	2,854
Other	1,733		1,733
	<u>180,527</u>	<u>80,260</u>	<u>260,787</u>
<b>EXPENSES</b>			
Utilities	52,285		52,285
Insurance	29,302		29,302
Grounds Maintenance	26,788		26,788
Snow Removal	20,808		20,808
Trash Removal	15,514		15,514
Management Fee	13,191		13,191
Building Maintenance	5,622		5,622
Professional Fees	2,181		2,181
Administrative	2,179		2,179
Bad Debt Expense	190		190
Major Repairs & Replacements		59,861	59,861
	<u>168,060</u>	<u>59,861</u>	<u>227,921</u>
Excess of Revenues Over Expenses	12,467	20,399	32,866
Fund Balance, January 1, 2009	<u>11,045</u>	<u>340,244</u>	<u>351,289</u>
Fund Balance, December 31, 2009	<u>\$ 23,512</u>	<u>\$ 360,643</u>	<u>\$ 384,155</u>

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

**Kipling Sun Townhomes Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2009**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess of revenues over expenses	\$ 12,467	\$ 20,399	\$ 32,866
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Bad Debt Expense	190		190
(Increase) decrease in:			
Accrued Interest Receivable		(2,402)	(2,402)
Assessments Receivable	1,927		1,927
Prepaid Insurance	(1,063)		(1,063)
Increase (decrease) in:			
Accounts Payable	(16,015)		(16,015)
Assessments Received in Advance	4,740		4,740
	<u>2,246</u>	<u>17,997</u>	<u>20,243</u>
<b>Net Cash Provided by Operating Activities</b>			
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net Purchase of Certificates of Deposit, Including Reinvestment of Interest		(190,136)	(190,136)
	<u>-</u>	<u>(190,136)</u>	<u>(190,136)</u>
<b>Net Cash Used by Investing Activities</b>			
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash</b>	2,246	(172,139)	(169,893)
Cash, January 1, 2009	32,883	335,549	368,432
Cash, December 31, 2009	<u>\$ 35,129</u>	<u>\$ 163,410</u>	<u>\$ 198,539</u>
<b>Supplemental Information</b>			
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**Kipling Sun Townhomes Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Kipling Sun Townhomes Association, Inc. (the Association), a Colorado non-profit corporation, was formed in 1985. The Association is responsible for the maintenance, preservation, and control of the common elements and to promote the health, safety, and welfare of the owners, residents, and occupants of the property. The Association is located in Jefferson County and consists of 120 townhome residential units.

**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 using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

<i>Operating Fund</i>	This fund is used to account for financial resources available for the general operations of the Association.
<i>Replacement Fund</i>	This fund is used to accumulate financial resources designated for future major repairs and replacements.

**Basis of Accounting**

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Association considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk**

The Association has one source of accounts receivable, homeowners. Accounts receivable from homeowners are from residents of the Association and may be secured by a lien upon their unit. The Association has adjusted accounts receivable for all known uncollectible accounts.

**Kipling Sun Townhomes Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**Note 1. Nature of Operations and Summary of Significant Accounting Policies - continued**

**Allowance for Doubtful Accounts**

The Association's policy is to enforce collection of assessments by retaining legal counsel and the placing of liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances. However, the Association has adopted the allowance for doubtful accounts method of providing for assessments which may not be collected during the following twelve month period.

**Common Area**

Title to the common area has been deeded to the Association by the developer. The common area properties consist of the greenbelts, sidewalks and streets. The disposition of common property is restricted by the Association's governing documents, but the Association may decide to dispose of the capitalized property.

**Recognition of Assets and Depreciation Policy**

Property and equipment purchased or otherwise acquired by the Association, if any, would be recorded at acquisition cost and depreciated using the straight line method over the estimated useful lives of 5-30 years.

**Interest Earned**

The Board's policy is to not allocate interest earned between funds, but rather report such interest in the fund in which it was earned.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 2. Certificates of Deposit**

The Association has invested funds in certificates of deposit. The Association intends to hold these investments until maturity.

**Kipling Sun Townhomes Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**Note 2. Certificates of Deposit - continued**

<u>Description</u>	<u>Face Value</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>
UMB Bank Colorado	\$90,000	3/11/10	1.50%
Mile High Banks	<u>4,831</u>	3/22/10	1.56%
Total	<u>\$94,831</u>		

**Note 3. Owners' Assessments**

Monthly assessments to owners were \$175 for 2009. Approximately 29% of total assessments were designated to the replacement fund. The annual budget and assessments of owners are determined by the Board and approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The 2010 budget reflects an increase in monthly assessments to \$186 per townhome unit.

**Note 4. Future Major Repairs and Replacements**

A reserve study update was prepared in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on average estimated replacement costs. The study uses an inflation rate of 3.00% and a reported after-tax interest rate of 0.01%. The table included in the Supplementary Information about Future Major Repairs and Replacements on page nine is based on the study.

The Board is funding major repairs and replacements over their remaining useful lives based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future costs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variation 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 to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**Kipling Sun Townhomes Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2009**

**Note 5. Federal and State Corporate Income Taxes**

Homeowners' associations may be taxed either as regular corporations or as homeowners' associations. For the year ended December 31, 2009, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. The Association incurred no income tax expense for 2009.

The choice of filing as a regular corporation or as a homeowners' association is based primarily on the policy of tax minimization.

**Note 6. Contingencies**

The Association is a party to various legal actions normally associated with homeowners' 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.

**Kipling Sun Townhomes Association, Inc.**  
**Supplementary Information about Future**  
**Major Repairs and Replacements (Unaudited)**  
**December 31, 2009**

A reserve study update was prepared in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The study uses an inflation rate of 3.0% and a reported after-tax interest rate of 0.01%.

The following information is based on the study and presents significant information about the components of common property. The information has not been updated for work performed or the passage of time.

<b><u>Component</u></b>	<b><u>Useful</u></b> <b><u>Life (yrs)</u></b>	<b><u>Remaining</u></b> <b><u>Useful</u></b> <b><u>Life (yrs)</u></b>	<b><u>Current</u></b> <b><u>Best</u></b> <b><u>Cost</u></b>	<b><u>Current</u></b> <b><u>Worst</u></b> <b><u>Cost</u></b>
Asphalt - Reseal/Older Section	5	2	\$2,800	\$3,500
Asphalt - Reseal/Newer Section	5	4	4,200	5,200
Asphalt - Mill & Overlay/Older Section	20	16	34,800	40,600
Asphalt - Mill & Overlay/Newer Section	20	18	52,200	60,900
Concrete - Drain Pans - Replace/Older	5	2	2,500	3,000
Concrete - Drain Pans - Replace/Newer	5	4	3,500	4,000
Concrete - Driveways, Parking, Walkways	1	0	14,000	16,000
Entrance Monument - Refurbish	10	1	4,000	6,000
Signage - Replace	10	1	1,000	1,500
Timber Retaining Wall - Replace	10	5	1,000	1,500
Wood Fencing - Replace Bowles	20	20	7,000	8,000
Wood Fencing - Replace Phase 1 East	20	19	16,500	18,000
Wood Fencing - Replace Phase 2 East	20	5	16,500	18,000
Irrigation Controllers - Replacement	8	1	2,000	3,000
Irrigation System - Replace/Upgrade	3	0	2,500	3,500
Landscaping - Replace/Trim	5	2	28,000	32,000
Siding & Trim - Replace Phase 1	30	5	111,000	165,500
Siding & Trim - Replace Phase 2	30	15	259,000	388,500
Siding & Trim - Paint/Repairs	1	0	20,000	22,000
Brick Veneer - Replace	5	3	1,400	1,600
Wood Stairs - Replace	20	6	17,500	24,500
Asphalt Shingles - Replace	30	20	616,000	638,000
Gutters & Downspouts - Replace	2	1	2,000	3,000
			<u>\$1,219,400</u>	<u>\$1,467,800</u>

See auditors' report.