

DRAFT
FOR DISCUSSION PURPOSES
ONLY

**SABLE COVE
CONDOMINIUM ASSOCIATION**

FINANCIAL STATEMENTS

Year Ended July 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sable Cove Condominium Association

I have audited the accompanying balance sheet of Sable Cove Condominium Association as of July 31, 2012, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the fiscal 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 Sable Cove Condominium Association as of July 31, 2012, and the results of its operations and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Sable Cove Condominium Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information of future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Denver, Colorado
September 18, 2012

SABLE COVE CONDOMINIUM ASSOCIATION

BALANCE SHEET

JULY 31, 2012

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	OPERATING FUND	REPLACEMENT FUND	TOTAL
	-----	-----	-----
<u>ASSETS</u>			
Cash and cash equivalents	\$ 166,905	\$ -	\$ 166,905
Accounts receivable - homeowners net of allowance of \$35,000	80,466		80,466
Other receivable	-		-
Property and equipment, net of accumulated depreciation of \$232,492	-	111,052	111,052
Prepaid insurance	10,503		10,503
Common area property	-	-	-
	-----	-----	-----
TOTAL ASSETS	\$ 257,874	\$ 111,052	\$ 368,926
	=====	=====	=====
<u>LIABILITIES</u>			
Bank loan	-	117,935	117,935
Accounts payable	14,658		14,658
Prepaid assessments	17,836		17,836
Rental deposits	3,050		3,050
	-----	-----	-----
TOTAL LIABILITIES	35,544	117,935	153,479
	-----	-----	-----
<u>CONTINGENCIES</u>	-	-	-
<u>HOMEOWNERS' EQUITY</u>			
Working capital	51,000		51,000
Fund balance(deficit)	171,330	(6,883)	164,447
	-----	-----	-----
TOTAL HOMEOWNERS' EQUITY	222,330	(6,883)	215,447
	-----	-----	-----
TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$ 257,874	\$ 111,052	\$ 368,926
	=====	=====	=====

The accompanying notes are an integral part of the financial statements

SABLE COVE CONDOMINIUM ASSOCIATION

**STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED JULY 31, 2012

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	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Homeowner assessments	\$ 693,790		\$ 693,790
Late charges and other homeowner assessments	3,523		3,523
Interest on investments	119		119
Rental income	-	63,455	63,455
TOTAL REVENUES	697,432	63,455	760,887
<u>EXPENSES</u>			
Water and sewer	184,194		184,194
Salary and related expenses	169,492		169,492
Bad debt expense	74,899		74,899
Insurance	63,012		63,012
Rental expenses	40,918		40,918
Grounds maintenance	35,978		35,978
Building maintenance	26,936	69,202	96,138
Trash removal	21,027		21,027
Administrative	13,409		13,409
Depreciation	12,160		12,160
Gas and electric	10,329		10,329
Professional fees	7,724		7,724
Pool maintenance	2,001		2,001
Interest expense	-	10,664	10,664
TOTAL EXPENSES	662,079	79,866	741,945
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	35,353	(16,411)	18,942
FUND BALANCE - BEGINNING OF YEAR	178,007	(32,502)	145,505
INTERFUND TRANSFERS	(42,030)	42,030	-
FUND BALANCE(DEFICIT) - END OF YEAR	\$ 171,330	\$ (6,883)	\$ 164,447

The accompanying notes are an integral part of the financial statements

SABLE COVE CONDOMINIUM ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2012

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	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess(deficiency) of revenues over expenses	\$ 35,353	\$ (16,411)	\$ 18,942
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	12,160		12,160
(Increase)decrease in accounts receivable - homeowner	52,245		52,245
(Increase)decrease in other receivable	-	558	558
(Increase)decrease in prepaid insurance	(2,007)		(2,007)
Increase(decrease) in accounts payable	(5,013)		(5,013)
Increase(decrease) in rental deposits	1,150		1,150
Increase(decrease) in prepaid assessments	912		912
Interfund transfers	(54,189)	54,189	-
Net cash provided by operating activities	40,611	38,336	78,947
CASH FLOWS FROM INVESTING ACTIVITIES:	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on loan		(38,336)	(38,336)
Net cash provided by financing activities		(38,336)	(38,336)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	40,611	-	40,611
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	126,294	-	126,294
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 166,905	\$ -	\$ 166,905
SUPPLEMENTAL INFORMATION:			
Income taxes paid	\$ -	\$ -	\$ -
Interest expense paid	\$ -	\$ 10,664	\$ 10,664

The accompanying notes are an integral part of the financial statements

SABLE COVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2012

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Note 1 - Organization

Sable Cove Condominium Association (the Association), a not-for-profit corporation organized under the laws of Colorado in 1982, was formed for the purpose of providing for the administration, maintenance, preservation and architectural control of the residence lots and common area located within the development and to promote the health, safety and welfare of the residents. The Association consists of owners of 340 residential units located in Aurora, Colorado. The objectives of the Association include maintaining the development as a prime residential ownership area of the highest quality and value and enhancing and protecting its value, desirability and attractiveness.

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.

Recognition of Assets and Depreciation Policy

The Association owns common area property acquired from the developer. Common area

SABLE COVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2012

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Note 2 – Summary of Significant Accounting Policies (continued)

property consists of greenbelt areas, pool, and a clubhouse. As such, the original cost of the common property is not reflected in these financial statements. In addition, costs incurred subsequent to the original developer's transfer, including replacements, improvements and maintenance are reflected as an expense of the Association. The Association's policy for recognition of common property as assets is to recognize (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members/nonmembers usage.

Property and equipment, when acquired, will be recorded at cost. Depreciation will be computed using the straight-line method over the estimated useful lives (5 –7 years) of the respective assets.

Securities, which the Association has the positive intent and ability to hold to maturity, are reported as held-to-maturity securities. Securities in this category are stated at cost, adjusted for amortization of premiums and accretion of discounts over their remaining lives. Securities not classified as held-to-maturity securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses reported as a separate component of homeowners' equity. Realized gains and losses on the disposition of securities and declines in value judged to be other than temporary are computed on a specific identification method and included in income.

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 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.

Financial Instruments

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

SABLE COVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2012

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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 July 31, 2012 consisted of checking account balances of \$166,905 in the operating fund, and savings accounts, and a money market funds of \$-0- in the replacement fund.

Note 4 - Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable - homeowners at July 31, 2012 represent assessments, late fees and other charges due from homeowners. The Association's Declaration of Covenants, Conditions and Restrictions provides for 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. The annual assessment for the Association was \$693,790 of which \$-0- was designated to the replacement fund. Any excess assessments at year-end are retained by the Association for use in the following year.

The Association's Declaration of Covenants, Conditions and Restrictions provides authorization to retain legal counsel and place liens on the properties of Association members whose assessments are thirty days or more delinquent. In the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will prevail in most instances. Additionally, the Association provides an allowance for doubtful accounts for those assessments that ultimately may not be collected.

Note 5 – Income Taxes

For 2011, the Association elected to file its income tax return as a corporation in accordance with Internal Revenue Code Section 528 in an effort to minimize its tax liability. Non-exempt income, which normally consists of interest income and related expenses, is taxable at regular federal corporate rates of approximately 30 percent and state rates of 4.63 percent under this method.

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Note 5 – Income Taxes (continued)

For income tax purposes, assessments levied for the restricted reserve fund and placed in separate, restricted bank accounts are considered to be held in trust for the owners, and are therefore not taxable. Related reserve expenditures also do not enter into the calculation of taxable income. Painting assessments and expenditures are considered to be operating items for income tax purposes.

Note 6 - Future Major Repairs and Replacements

The Association's governing documents require that a Replacement Fund and restricted cash accounts are established for major repairs and replacements of common property and the Association has implemented these procedures. Accumulated funds are held in separate savings or investment accounts and generally are not available for expenditures for normal operations.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the board'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 needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, 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 7 – 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.

Note 8 – Subsequent Events

Management has evaluated subsequent events through September 18, 2012, the date the financials were available to be issued. No significant subsequent events have been identified that would require of or disclosure in the accompanying financial statements.