

LATHROP FINANCIAL SERVICES

Certified Public Accountant

To the Board of Directors and Members
The Meadow Creek Condominium Association, Inc.

I have audited the Balance Sheet of The Meadow Creek Condominium Association, Inc. (the "Association"), a Colorado non-profit corporation, as of June 30, 2008, and the related Statements of Revenue and Expenses and Change in Fund Balances and Cash Flows for the year ended June 30, 2008. These financial statements are the responsibility of the Association's management; my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit of these statements in accordance with generally accepted auditing standards, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. I believe that my audit provided a reasonable basis for the opinion expressed below.

In my opinion, the Balance Sheet of the Meadow Creek Condominium Association, Inc. and the related Statements of Revenue and Expenses and Change in Fund Balances as of June 30, 2008 present fairly, in all material respects, the financial position of the Association at June 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles. The Balance Sheet as of June 30, 2007 has been included for reference purposes only and has not been audited.

During the course of my audit specific audit tests were performed on the 2008 Remodel Project activity. Based on the testing it appears that the amounts shown in the financial statements for assessment revenues and costs recorded related to that project are stated fairly.

Supplementary information about future repairs and replacements is not a required part of the basic financial statements but is supplementary information recommended to be included in financial statements by the American Institute of Certified Public Accountants. The Association has not prepared reserve studies to identify costs related to future repairs and replacements. Accordingly reserve information is not included in these financial statements.



Lathrop Financial Services LLC
February 3, 2009

The Meadow Creek Condominium Association, Inc.
Balance Sheet
June 30, 2008 (audited) and 2007 (unaudited)

	June 30, 2008				(Unaudited)
	Operating Fund	Remodel Fund	Replacement Fund	Total 30, 2008	June 30, 2007
ASSETS					
Current Assets					
Cash and Cash Equivalents					
Checking	\$ 3,740	\$ -	\$ -	\$ 3,740	\$ 9,027
Savings	-	-	131,629	131,629	142,301
Remodel Checking	-	9,183	-	9,183	69,956
Remodel Savings	-	-	-	-	404,833
Total Cash Accounts	<u>3,740</u>	<u>9,183</u>	<u>131,629</u>	<u>144,552</u>	<u>626,116</u>
Assessments Receivable	50,835	-	-	50,835	666,176
Prepaid Expenses	-	-	-	-	-
Due from Other Funds	-	50,817	-	50,817	751,485
Total Current Assets	<u>54,575</u>	<u>60,000</u>	<u>131,629</u>	<u>246,204</u>	<u>2,043,776</u>
Total Assets	<u>\$ 54,575</u>	<u>\$ 60,000</u>	<u>\$ 131,629</u>	<u>\$ 246,204</u>	<u>2,043,776</u>
LIABILITIES AND CAPITAL					
Current Liabilities					
Accounts Payable	\$ 22,808	\$ -	\$ -	\$ 22,808	\$ 41,412
Loan Payable		60,000	-	60,000	-
Income Taxes Payable	1,089	-	-	1,089	1,791
Prepaid Dues	3,913	-	-	3,913	-
Due to Other Funds	26,765	-	21,795	48,560	751,485
Total Current Liabilities	<u>54,575</u>	<u>60,000</u>	<u>21,795</u>	<u>136,370</u>	<u>794,688</u>
Total Liabilities	<u>54,575</u>	<u>60,000</u>	<u>21,795</u>	<u>136,370</u>	<u>794,688</u>
Capital					
Remodel Reserve	-	-	-	-	1,226,273
Capital Improvement Reserve	-	-	109,834	109,834	22,816
Total Capital	<u>-</u>	<u>-</u>	<u>109,834</u>	<u>109,834</u>	<u>1,249,089</u>
Total Liabilities & Capital	<u>\$ 54,575</u>	<u>\$ 60,000</u>	<u>\$ 131,629</u>	<u>\$ 246,204</u>	<u>2,043,776</u>

The accompanying footnotes are an intergral part of these financial statements

The Meadow Creek Condominium Association, Inc.
 Statements of Revenue and Expenses and Changes in Working Capital
 For the year ended June 30, 2008

	Operating Fund	Remodel Fund	Replacement Fund	Total June 30, 2008
Revenues				
Association Dues	\$ 250,780	\$ -	\$ -	\$ 250,780
Remodel Assessment	-	51,200	-	51,200
Reserve Replenishment Assessment	-	-	64,000	64,000
Snow Removal Assessment	32,000	-	-	32,000
Interest Income	8,889	-	-	8,889
Customer Finance Charges	11,801	-	-	11,801
Miscellaneous Income	25	-	-	25
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	303,495	51,200	64,000	418,695
Reserve Allocation	<hr/>	<hr/>	<hr/>	<hr/>
	58,965	(5,081)	(54,799)	(915)
Gross Operating Profit	<hr/>	<hr/>	<hr/>	<hr/>
	244,530	56,281	118,799	419,610
Expenses				
Management Fees	25,600	-	-	25,600
Accounting & Legal Fees	4,756	-	-	4,756
Bank Charges	112	-	-	112
Income Taxes	1,089	-	-	1,089
Snow Removal	64,638	-	-	64,638
Snow Plowing	20,660	-	-	20,660
Irrigation Maintenance	3,108	-	-	3,108
Landscaping	7,187	-	-	7,187
Lawn Care	10,320	-	-	10,320
Tree spraying	3,495	-	-	3,495
Electricity	1,386	-	-	1,386
Water & Sewer	33,749	-	-	33,749
Trash Removal	16,368	-	-	16,368
Insurance	27,871	-	-	27,871
Repair and Maintenance-General	21,753	-	-	21,753
Web Site Expense	600	-	-	600
Miscellaneous	575	-	-	575
Chimney Cleaning	1,260	-	-	1,260
Remodel Costs	-	1,282,554	-	1,282,554
Reserve Fund	-	-	31,780	31,780
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	244,530	1,282,554	31,780	1,558,864
Net Operating Surplus (Deficit)	<hr/>	<hr/>	<hr/>	<hr/>
	(0)	(1,226,273)	87,019	(1,139,254)
Beginning Reserve Fund Balance	-	1,226,273	22,815	1,249,088
	<hr/>	<hr/>	<hr/>	<hr/>
Ending Working Capital Fund (Deficit)	<hr/>	<hr/>	<hr/>	<hr/>
	\$ (0)	\$ (0)	\$ 109,834	\$ 109,834

The accompanying footnotes are an integral part of these financial statements

The Meadow Creek Condominium Association, Inc.
 Statements of Cash Flows
 For the year ended June 30, 2008

June 30, 2008

	Operating Fund	Remodel Fund	Replacement Fund	Total
Cash Flows				
Inflows:				
Collected from Owners	\$ 898,120	\$ 51,200	\$ 64,000	\$ 1,013,320
Interest income	8,889	-	-	8,889
Other Receipts	11,826	-	-	11,826
Funding from Bank Loan		120,000		120,000
Interfund transfers		651,725		651,725
	<u>918,835</u>	<u>822,925</u>	<u>64,000</u>	<u>1,805,760</u>
Outflows:				
Operating expenses	243,440	-	-	243,440
Remodel costs		1,228,530		1,228,530
Reserve Allocations			31,780	31,780
Repayment of Bank Loan		60,000		60,000
Interfund transfers	680,682		42,892	723,574
	<u>924,122</u>	<u>1,288,530</u>	<u>74,672</u>	<u>2,287,324</u>
Cash Flow for Year	(5,287)	(465,605)	(10,672)	(481,564)
Beginning Cash Balance	9,027	474,788	142,301	626,116
Ending Cash Balance	<u>\$ 3,740</u>	<u>\$ 9,183</u>	<u>\$ 131,629</u>	<u>\$ 144,552</u>
Reconciliation of Cash flows to Changes in Balance Sheet Accounts:				
Operating Activities				
Net Operating Surplus (Deficit) for year	\$ (0)	\$ (1,226,273)	\$ 87,019	\$ (1,139,254)
Cash Flow Changes In Other				
Assets/Liabilities:				
Assessments Receivables	615,340	-	-	615,340
Accounts Payable	(18,604)	-	-	(18,604)
Income Taxes Payable	(702)	-	-	(702)
Prepaid Assessments	3,913	-	-	3,913
Due From (to) Other Funds	(605,235)	700,668	(97,691)	(2,258)
Net Cash Provided (Used) by Operating Activities	<u>(5,287)</u>	<u>(525,605)</u>	<u>(10,672)</u>	<u>(541,564)</u>
Investing Activities				
Remodel expenditures	-	(1,226,273)		(1,226,273)
Transfers from Remodel Reserve		1,226,273		1,226,273
Net Cash Used in Investing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financing Activities				
Proceeds from Loan Payable		120,000		120,000
Repayments on Note Payable	-	(60,000)	-	(60,000)
Net Cash Provided by Financing Activities	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>60,000</u>
Net Increase (Decrease) in Cash	(5,287)	(465,605)	(10,672)	(481,564)
Cash at Beginning of Year	<u>9,027</u>	<u>474,788</u>	<u>142,301</u>	<u>626,116</u>
Cash at End of Year	<u>\$ 3,740</u>	<u>\$ 9,183</u>	<u>\$ 131,629</u>	<u>\$ 144,551</u>

The accompanying footnotes are an integral part of these financial statements

NOTE A – NATURE OF ORGANIZATION

The Meadow Creek Condominium Association, Inc. (the “Association”), a Colorado non-profit corporation, was incorporated in 1978 in the state of Colorado. The Association is responsible for the operation and maintenance of the common property within the Meadow Creek Condominiums development (“the development”). The development consists of 64 residential condominium units located in Eagle County, Colorado.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s Declaration Document, its governing document, provides 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:

Operating Fund- This fund is used to account for financial resources available for the general operations of the Association. It is funded from member assessments

Remodel Fund- This fund is used to accumulate financial resources designated for the remodel of the common property components. It was funded from a special member assessment.

Replacement Fund- This fund is used to accumulate financial resources designated for future major repairs and replacements of the common property components. It is funded from member assessments and excess operating funds

Member Assessments

Association members are subject to an annual assessment, billed in quarterly installments, to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The annual assessment is levied in accordance with the annual budget in proportion to each owner’s Sharing Ratio, as defined in the Declaration document. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association assesses finance charges on delinquent assessments. Excess assessments at year-end are retained by the association for use in the succeeding year or added to the capital replacement fund.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources. Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. The Association has elected to be taxed as a regular corporation to take advantage of lower income tax rates available under that filing option.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the 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 C – SPECIAL ASSESSMENTS

In February 2007 the Homeowners approved a special assessment of \$35,500 per unit to for a remodel of the property. (See Note D). In addition, certain owners agreed to additional individual assessments to replace windows and repair their decks. The full amount of the assessment was due June 30, 2007

The Board of Directors passed a motion in April 2008 for a special assessment due to the \$50,000 cost overrun on the remodel, \$32,000 over budgeted cost for roof snow removal, and the need to replenish the capital reserve fund. The motion called for a special assessment of \$2,300 per unit, allocated between \$800 for the remodel expense, \$500 for snow removal and \$1,000 towards the reserve fund replenishment. The assessment was billed in April 2008, and payment was due by June 30, 2008.

NOTE D – REMODEL

The Association's membership voted to embark on a major remodel project in 2007. The work began in mid 2007 and was completed in spring of 2008. As noted in Note C, each owner was initially assessed \$35,500 per unit to for a remodel of the property. The initial assessment was due June 30, 2007, resulting in an unaudited Accounts Receivable balance of \$666,176 as of June 30, 2007. In addition, certain owners agreed to additional individual assessments to replace windows and repair their decks. In fiscal 2008, the owners were each assessed an additional \$800 for budget overruns on the project. The total assessments for the project were \$2,232,200 and total costs were \$2,325,457, resulting in a net shortfall in funding of \$2,257. This amount was assumed funded from the Reserve Fund at June 30, 2008.

NOTE E – NOTE PAYABLE

In connection with the remodel work, the Association entered into a loan agreement with a bank for financing the completion of the remodel work. Under the agreement, the Association borrowed \$120,000. The Association repaid \$60,000 prior to June 30, 2008, and repaid the remaining balance in December 2008.

NOTE F - FUTURE MAJOR CLAIMS AND REPLACEMENTS

The Association's Declaration document requires funds to be accumulated for future major repairs and replacements. Accumulated funds are held in an interest bearing separate account and are generally not available for operating purposes. These segregated funds aggregated \$131,629 at June 30, 2008 of which included \$110,923 of Replacement Reserve funds as noted in Note B.

The Association has not prepared a study to estimate the remaining useful lives and the replacement costs of the common property components.