

MILL RUN HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

with

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

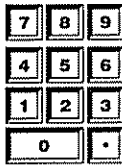
and

SUPPLEMENTARY INFORMATION

September 30, 2007

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**BEICHLER & ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS  
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Members of the:  
Mill Run Homeowners Association, Inc.

We have audited the accompanying balance sheet of the Mill Run Homeowners Association, Inc. as of September 30, 2007, and the related statements of revenues and expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association'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 misstatements. 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 statements 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 the Mill Run Homeowners Association, Inc., as of September 30, 2007 and the results of its operations and its cash receipts and payments for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the Schedule of Operating Fund Revenues and Expenses - Budget and Actual on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "compiled," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information on future major repairs and replacement on page 10 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. 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.

*Beichler & Associates, Inc.*  
April 25, 2008

MILL RUN HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

September 30, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash	\$7,127	\$ 94,921	\$102,048
Assessments receivable, net of allowance for doubtful accounts of \$6,000	11,941	-	11,941
Prepaid insurance	8,371	-	8,371
Due from operating fund	-	<u>5,175</u>	<u>5,175</u>
 TOTAL ASSETS	 <u>\$ 27,439</u>	 <u>\$100,096</u>	 <u>\$127,535</u>

LIABILITIES AND FUND BALANCES

Current Liabilities:			
Accounts payable	\$ 5,652	\$ -	\$ 5,652
Prepaid assessments	4,543	-	4,543
Due to replacement fund	<u>5,175</u>	<u>-</u>	<u>5,175</u>
 LIABILITIES	 15,370	 -	 15,370
 Contingency (Note 3)	 -	 -	 -
 Fund balances	 <u>12,069</u>	 <u>100,096</u>	 <u>112,165</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 27,439</u>	 <u>\$100,096</u>	 <u>\$127,535</u>

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

MILL RUN HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended September 30, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Member assessments (Note 2)	\$ 179,478	\$ 54,000	\$ 233,478
Late charges and other	3,190	-	3,190
Interest	<u>265</u>	<u>2,454</u>	<u>2,719</u>
Total Revenues	<u>182,933</u>	<u>56,454</u>	<u>239,387</u>
Expenses:			
Trash removal	12,542	-	12,542
Snow removal	7,503	-	7,503
Landscape contract	35,313	-	35,313
Sprinkler repairs	9,618	-	9,618
Tree care	1,204	-	1,204
Bad debts	808	-	808
Gas and electric	3,743	-	3,743
Water and sewer	43,460	-	43,460
Pool repairs and maintenance	8,903	-	8,903
Management fees	14,400	-	14,400
Legal fees	741	-	741
Accounting	1,225	-	1,225
Office printing and postage	2,702	-	2,702
Insurance	26,281	-	26,281
Building maintenance	100	-	100
Landscape renovation	-	1,750	1,750
Asphalt	-	<u>28,487</u>	<u>28,487</u>
Total Expenses	<u>168,543</u>	<u>30,237</u>	<u>198,780</u>
Excess of Revenues Over Expenses	14,390	26,217	40,607
Fund Balance - Beginning of Year	<u>(2,321)</u>	<u>73,879</u>	<u>71,558</u>
Fund Balance - End of Year	<u>\$ 12,069</u>	<u>\$100,096</u>	<u>\$ 112,165</u>

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

MILL RUN HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses	\$ <u>14,390</u>	\$ <u>26,217</u>	\$ <u>40,607</u>
Adjustment to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Decrease in assessments receivables	3,544	-	3,544
(Increase) in prepaid insurance	(64)	-	(64)
Increase in accounts payable	479	-	479
(Decrease) in prepaid assessments	(365)	-	(365)
Decrease in interfund receivable	<u>(15,001)</u>	<u>15,001</u>	<u>-</u>
	<u>(11,407)</u>	<u>15,001</u>	<u>3,594</u>
Net cash provided (used) by operating activities	2,983	41,218	44,201
Cash Balance - Beginning of Year	<u>4,144</u>	<u>53,703</u>	<u>57,847</u>
Cash Balance - End of Year	\$ <u>7,127</u>	\$ <u>94,921</u>	\$ <u>102,048</u>

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

MILL RUN HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

(1) Nature of Organization

The Mill Run Homeowners Association, Inc. was incorporated in the State of Colorado on October 23, 1979. The Association is responsible for the operation and maintenance of the common property of the Mill Run Homeowners Association, Inc. The Association consists of 119 residential units located in Aurora, Colorado.

(2) Summary of Significant Accounting Policies

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 purposes.

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are transferred by the Association to the replacement fund. For the year ended September 30, 2007, monthly assessments were \$165 per unit, with \$37.82 per month set aside to the replacement fund.

MILL RUN HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

(2) Summary of Significant Accounting Policies, Continued

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.

Cash and Cash Equivalents Policy

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At September 30, 2007, property not capitalized consists of greenbelts, swimming pool, tennis court, fences and walls, sidewalks and streets. According to the Association's governing documents, two-thirds of all unit owners must approve dispositions of any common real property. Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

Interest Income

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

Depreciation

Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

MILL RUN HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2007

(3) Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$100,096 at September 30, 2007, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund.

Gillan's Engineering, Inc. conducted a study in May, 1995 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

(4) Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended September 30, 2007, the Association was taxed as a homeowners' association. As a homeowners' association, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmember-ship income, such as interest earnings, at regular federal and state corporate rates. The Association had no taxable income for the year ended September 30, 2007.

SUPPLEMENTARY INFORMATION

MILL RUN HOMEOWNERS ASSOCIATION, INC.

SCHEDULE 1 - SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES -  
BUDGET AND ACTUAL

For the Year Ended September 30, 2007

	<u>Actual</u>	<u>Compiled Budget</u>	<u>Difference</u>
<b>Revenues:</b>			
Assessments revenue	\$179,478	\$179,478	\$ -
Late charges and other	<u>3,455</u>	<u>1,750</u>	<u>1,705</u>
Total Revenues	<u>182,933</u>	<u>181,228</u>	<u>1,705</u>
<b>Expenses:</b>			
Bad debts	808	3,000	2,192
Trash removal	12,542	12,020	(522)
Snow removal	7,503	5,750	(1,753)
Pool maintenance	8,903	5,600	(3,303)
Landscape contract	35,313	36,000	687
Sprinkler repairs	9,618	12,000	2,382
Gas and electric	3,743	4,400	657
Water and sewer	43,460	49,000	5,540
Management fees	14,400	14,400	-
Legal fees	741	1,000	259
Accounting	1,225	1,050	(175)
Office printing and postage	2,702	2,818	116
Insurance	26,281	29,000	2,719
Electrical maintenance	-	650	650
Building maintenance	100	1,050	950
Tree care	1,204	-	(1,204)
Miscellaneous	-	<u>3,450</u>	<u>3,450</u>
Total Expenses	<u>168,543</u>	<u>181,188</u>	<u>12,645</u>
Excess of Revenues Over Expenses	\$ <u>14,390</u>	\$ <u>40</u>	\$ <u>14,350</u>

MILL RUN HOMEOWNERS ASSOCIATION, INC.

SCHEDULE 2 - SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS (COMPILED)

September 30, 2007

Gillan's Engineering, Inc. conducted a study in May, 1995 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property:

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Exteriors	4 years	\$ 81,090
Fence	3 years	46,588
Tennis court	1-7 years	11,256
Asphalt	4 years	30,225
Concrete	7 years	452,238
Retaining walls	5 years	336,000
Pool	1-10 years	27,610
Other	4-5 years	<u>15,546</u>
		<u>\$1,000,553</u>

