

***CHEESMAN TOWER WEST
CONDOMINIUM ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

JULY 31, 2014 and 2013

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CONDOMINIUM ASSOCIATION***

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SUPPLEMENTARY INFORMATION

JULY 31, 2014 and 2013

L.R. COMPTON II, LLC

Certified Public Accountants

3595 South Teller Street, Suite 402

Lakewood, Colorado 80235

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

JULY 31, 2014 and 2013

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Cheesman Tower West Condominium Association
Denver, Colorado

We have audited the accompanying financial statements of Cheesman Tower West Condominium Association, which comprise the balance sheets as of July 31, 2014 and 2013, and the related statements of revenue, expenditures and changes in fund balances and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 Cheesman Tower West Condominium Association as of July 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lakewood, Colorado
October 21, 2014

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CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

BALANCE SHEETS

	YEARS ENDED JULY 31,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 134,773	\$ 84,539	\$ 219,312	\$ 76,536
Certificates of Deposit	-	20,000	20,000	-
Assessments Receivable, Net	-	-	-	489
Accounts Receivable, Other	13,676	-	13,676	460
Prepaid Items	40,109	-	40,109	27,665
Property and Equipment, Net	44,800	-	44,800	45,842
Interfund Balances	-	-	-	-
TOTAL ASSETS	\$ 233,358	\$ 104,539	\$ 337,897	\$ 150,992
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 18,079	\$ -	\$ 18,079	\$ 6,680
Deferred Assessments	3,144	-	3,144	6,155
Note Payable	-	485,099	485,099	518,380
<i>Total Liabilities</i>	21,223	485,099	506,322	531,215
FUND BALANCES				
Operating Fund	212,135	-	212,135	73,409
Replacement Fund (Deficit)	-	(380,560)	(380,560)	(453,632)
<i>Total Fund Balances</i>	212,135	(380,560)	(168,425)	(380,223)
TOTAL LIABILITIES and FUND BALANCES	\$ 233,358	\$ 104,539	\$ 337,897	\$ 150,992

See Notes to Financial Statements

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the FUND BALANCES

	YEARS ENDED JULY 31,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 315,487	\$ 118,008	\$ 433,495	\$ 414,218
Rental Income	2,400	-	2,400	13,500
Other Member Income	20,682	-	20,682	18,660
Sale of Unit 204	245,000	-	245,000	-
Capital Gains <Losses>	-	-	-	(606)
Interest	<u>187</u>	<u>38</u>	<u>225</u>	<u>354</u>
Total Revenue	583,756	118,046	701,802	446,126
EXPENDITURES				
Maintenance	84,278	-	84,278	96,998
Operating (Utilities)	107,988	-	107,988	104,676
Replacement Projects	-	10,678	10,678	106,224
Administrative				
Depreciation	1,042	-	1,042	1,042
Income Taxes	68,415	-	68,415	283
Insurance	37,834	-	37,834	35,161
Interest	-	30,111	30,111	33,752
Management Fees	20,933	-	20,933	20,700
Office and Communications	7,094	140	7,234	11,251
Payroll & Related Expenses	94,158	-	94,158	85,702
Professional Fees	5,990	3,429	9,419	7,643
Property Taxes	1,923	616	2,539	1,656
Unit 204 Cost of Sale	<u>15,375</u>	<u>-</u>	<u>15,375</u>	<u>-</u>
Total Administrative	<u>252,764</u>	<u>34,296</u>	<u>287,060</u>	<u>197,190</u>
Total Expenditures	<u>445,030</u>	<u>44,974</u>	<u>490,004</u>	<u>505,088</u>
EXCESS (DEFICIT) of REVENUE				
OVER EXPENDITURES	138,726	73,072	211,798	(58,962)
Unrealized Gain <Loss> on Investments	-	-	-	213
Fund Balances, Beginning of Year	<u>73,409</u>	<u>(453,632)</u>	<u>(380,223)</u>	<u>(321,474)</u>
FUND BALANCES, End of Year	<u>\$ 212,135</u>	<u>\$ (380,560)</u>	<u>\$ (168,425)</u>	<u>\$ (380,223)</u>

See Notes to Financial Statements

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

STATEMENTS of CASH FLOWS

	YEARS ENDED JULY 31,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ 138,726	\$ 73,072	\$ 211,798	\$ (58,962)
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Depreciation	1,042	-	1,042	1,042
Assessments Receivable, Net	489	-	489	2,847
Accounts Receivable, Other	(13,216)	-	(13,216)	495
Accrued Interest Receivable	-	-	-	249
Prepaid Items	(12,444)	-	(12,444)	4,462
Accounts Payable and Accrued Liabilities	11,399	-	11,399	(2,697)
Deferred Assessments	<u>(3,011)</u>	<u>-</u>	<u>(3,011)</u>	<u>1,301</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	122,985	73,072	196,057	(51,263)
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	(20,000)	(20,000)	45,000
Investments	-	-	-	23,181
Note Payable	-	(33,281)	(33,281)	(30,610)
Interfund Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>-</u>	<u>(53,281)</u>	<u>(53,281)</u>	<u>37,571</u>
<i>NET INCREASE (DECREASE) in CASH</i>	122,985	19,791	142,776	(13,692)
Cash, Beginning of Year	<u>11,788</u>	<u>64,748</u>	<u>76,536</u>	<u>90,228</u>
<i>CASH, End of Year</i>	<u>\$ 134,773</u>	<u>\$ 84,539</u>	<u>\$ 219,312</u>	<u>\$ 76,536</u>
<i>Supplemental Disclosure</i>				
Income Taxes Paid	<u>\$ 79,289</u>	<u>\$ -</u>	<u>\$ 79,289</u>	<u>\$ 283</u>
Interest Paid	<u>\$ -</u>	<u>\$ 30,111</u>	<u>\$ 30,111</u>	<u>\$ 33,752</u>

See Notes to Financial Statements

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
JULY 31, 2014 and 2013

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

Cheesman Tower West Condominium Association (The Association) was incorporated August 27, 1979 under the Colorado Nonprofit Corporation Act. The Association consists of 74 residential condominium units located in Denver, Colorado. Its members are the owners of 73 of the condominium units. The Association owns 1 of the 74 condominiums for use by guests of owners. The Association's purpose is to maintain, operate and manage the condominium residential building and improvements.

Significant Accounting Policies

Method of Accounting

The financial statements of Cheesman Tower West Condominium Association are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities as prescribed in the governing documents.

Fund Accounting

The books and records of the Association recognize two primary funds:

Operating Fund: This fund records the daily activities of operating the Association, including the annual budgeting, assessing of the owners, collecting of assessments, disbursing funds under the annual budget and paying income taxes, if any are due, on income unrelated to membership in the Association. Property and equipment purchased with Association funds are recorded in the operating fund as is the related accumulated depreciation.

Replacement Fund: This fund represents the investments of condominiums' assessments that are being accumulated for future major repairs and replacements as projected in the Association's March 2014 *Reserve Study*. This study, prepared by an independent building consultant, forecasts the cash necessary to fund the projects considered advisable to maintain the Association's property in first class condition. The fund holds investment grade securities, bonds and other financial instruments which may provide income and growth.

Prepaid Items

Cheesman Tower West Condominium Association may pay certain expenses such as insurance and wastewater invoices on an annual basis. The portions to be expensed in a future accounting period are recorded as prepaid items.

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS

JULY 31, 2014 and 2013

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Property and Equipment, Net

Real property and common areas received from the developer and the related improvements to such property are not recorded in the Association's financial statements. These properties are owned by the individual unit owners in common, not by the Association which may capitalize personal property at cost and depreciate it using the straight-line method. The Association acquired improvements, not yet fully depreciated, are recorded in the operating fund and are being depreciated over a 30 year life.

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash to be transferred from one fund to the other, if any, is recorded as interfund balances from one fund to the other.

Deferred Assessments

Monthly assessments to the members are billed in advance, and may be paid prior to the period billed. Any assessments received in advance are recorded as prepaid assessments and not recognized as income until the appropriate accounting period.

Revenue

Assessments, as set by the annual budget to be collected from homeowners, represent the major source of revenue for the Association. Additionally, assessments paid in arrears incur a late charge and should legal collection steps become necessary the legal fees are recorded with the late charges as other income. Also, fines imposed for infractions under the rules and regulations of the Association are recorded as other income.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. Cheesman Tower West Condominium Association maintains its cash balances in both national banks and with investment firms. The Federal Deposit Insurance Corporation provided up to \$250,000 of insurance through December 31, 2012 for interest earning accounts in national banks, and unlimited insurance on demand deposits. Only \$250,000 in deposits are insured after December 31, 2012. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits, the Association has \$-0- in uninsured deposits.

Fair Value of Financial Instruments

The carrying value of cash, short-term receivables, short-term payables and long-term debt approximate their fair value at July 31, 2014 and 2013. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS

JULY 31, 2014 and 2013

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain balances from the 2013 financial statements have been reclassified to conform to the presentation at July 31, 2014.

NOTE 2. Assessments Receivable, Net

The accounts receivable arising from ordinary Association activities are, in management's opinion, collectible in full since they constitute a legal debt of the property subject only to a prior first mortgage on the condominium. The total owed to the Association includes any late fees incurred in collection. These debts, however, may require the Board of Directors exercise the Association's remedies to collect. No allowance for uncollectable accounts has been established at July 31, 2014 and 2013. Assessments receivable are shown on the Association's financial statements at the total billed amount net of any allowance for uncollectable accounts.

NOTE 3. Accounts Receivable, Other

During the year ended July 31, 2014, a water leak occurred resulting in damages and legal fees of \$12,916. This liability is being disputed by the owner and is currently with the Association's attorney for collections or resolution. The remaining \$760 represents July 2014 laundry room revenues which were deposited in August 2014. Accounts Receivable, Other is shown on the Association's financial statements at the total receivable amount.

NOTE 4. Property and Equipment, Net

The Association owns, as common property, a condominium unit along with improvements, land, equipment and furniture and fixtures. A summary of these assets and the accumulated depreciation at July 31,

	<u>2014</u>	<u>2013</u>
Land	\$ 30,000	\$ 30,000
Condominium Unit and Improvements	175,294	175,294
Furniture, Fixtures and Equipment	<u>1,023</u>	<u>1,023</u>
Total Property and Equipment	206,317	206,317
Accumulated Depreciation	<u>(161,517)</u>	<u>(160,475)</u>
<i>Property and Equipment, Net</i>	<u><u>\$ 44,800</u></u>	<u><u>\$ 45,842</u></u>

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS

JULY 31, 2014 and 2013

(Continued)

NOTE 5. Note Payable

The Association has an outstanding note payable recorded in its Replacement Fund of \$485,099 at July 31, 2014. The 15 year, 5.90% interest note requires monthly interest and principal payments of \$5,283 until maturity at September 2024. Principal payments due at July 31,

<u>YEAR</u>		
2015	\$ 35,176	
2016	37,532	
2017	40,046	
2018	42,728	
2019	<u>45,589</u>	
Total Above		\$ 201,071
2020 - 2024		277,344
2025		<u>6,684</u>
Total		<u>\$ 485,099</u>

NOTE 6. Replacement Fund

In 2013, the Board commissioned an independent building consultant to prepare an updated Reserve Study of the future major repairs and replacement needs of the common areas of the Association. The study assumes an annual inflation rate of 3.00% and an after-tax interest rate of 0.25%. Assessments levied on members of the Association for the replacement fund are transferred monthly to a separate account.

Actual earnings and expenditures may vary from the amounts estimated in the 2014 study, and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements.

If additional monies are found to be necessary, the Board has the right, subject to membership approval, to increase regular assessments designated for the replacement fund, pass special assessments, or delay the major repairs and replacement projects until monies are available.

NOTE 7: Replacement Fund Expenditures

The Board of the Association approves Replacement Fund expenditures each year based on the Reserve Study and owners' reports of physical conditions. During the years covered herein, the following expenditures were approved and made:

	<u>YEARS ENDED JULY 31,</u>	
<u>General</u>	<u>2014</u>	<u>2013</u>
Note Interest	\$ 30,111	\$ 33,752
Office & Communications (Management)	140	140
Professional Fees (Reserve Study)	3,429	-
Property Taxes	<u>616</u>	<u>1,168</u>
Total General	34,296	35,060

CHEESMAN TOWER WEST CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS

JULY 31, 2014 and 2013

(Continued)

NOTE 7: Replacement Fund Expenditures (Continued)

Projects	YEARS ENDED JULY 31,	
	<u>2014</u>	<u>2013</u>
Building		
Boiler and HVAC	2,144	14,445
Elevator	-	10,249
Garage and Parking Deck	-	3,457
Guest Room Restoration	601	-
Window and Door Replacement	-	5,610
Grounds		
Exercise Equipment	-	5,863
Landscape	7,445	64,276
Pool	488	2,324
Total Projects	<u>10,678</u>	<u>106,224</u>
Total Expenditures	<u>\$ 44,974</u>	<u>\$ 141,284</u>

NOTE 8: Sale of Unit 204

In February 2014 the Association sold one of the two units it owned. The unit, which had no cost, was sold for \$245,000 with the net proceeds deposited into the Operating Fund. As of the close of the sale, Unit 204 began paying monthly assessments.

NOTE 9: Contingencies

The Association is a party to various legal actions normally associated with homeowner's associations, such as the collection of delinquent accounts and owner compliance with the covenants, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association, excepting the receivable discussed in NOTE 3.

NOTE 10. Income Taxes

The Association is responsible for any income taxes due on its income from sources unrelated to members' ownership of condominiums. Such income could include interest, dividends or portfolio gains/losses, advertising income, and other income of this nature. Federal income tax filings may be under a special election as a Homeowners Association (Form 1120-H), or as a regular corporation (Form 1120). Total income is reported as either: a) Association membership income/(loss), or b) taxable income/(loss). At July 31, 2014 and 2013, the Association chose to file regular corporate returns and paid income taxes of \$68,415 and \$283, respectively. Colorado income tax filings are as a corporation (Form 112). The Association has a membership tax loss carryforward of \$36,713 at July 31, 2014.

NOTE 11: Subsequent Events

In preparing these financial statements, the Cheesman Tower West Condominium Association's Board has evaluated events and transactions for potential recognition or disclosure through October 21, 2014, the date the financial statements were issued.

***CHEESMAN TOWER WEST
CONDOMINIUM ASSOCIATION***

SUPPLEMENTARY INFORMATION

JULY 31, 2014

L.R. COMPTON II, LLC

Certified Public Accountants

3595 S. Teller Street, Suite 402
Lakewood, Colorado 80235
(303) 980-6232

Independent Auditor's Report on Supplementary Information

Members of the Board of Directors
Cheesman Tower West Condominium Association
Denver, Colorado

Our report on our audits of the basic financial statements of Cheesman Tower West Condominium Association for July 31, 2014 and 2013 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information for the year ended July 31, 2014, *Actual Revenue and Expenditures Versus Budget for the Operating Fund*, on page 12, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information, except for the column marked "Not Audited" 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, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The *Future Major Repairs and Replacements Proposed* presented on page 13, is not a required part of the basic financial statements of Cheesman Tower West Condominium Association at July 31, 2014 but is supplementary information required by American Institute of Certified Public Accountants. We have applied certain limited procedures which consisted principally of inquiries of management regarding the method of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

October 21, 2014

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CHEESMAN TOWER WEST

ACTUAL REVENUE and EXPENDITURES VERSUS BUDGET for the OPERATING FUND YEAR ENDED JULY 31, 2014

	<u>ACTUAL</u>	<u>(Not Audited) BUDGET</u>	<u>Variation* (Over)/Under Budget</u>
REVENUE			
Assessments	\$ 433,495	\$ 430,704	\$ (2,791)
Sale of Unit #214, net	245,000	-	(245,000)
Interest and			
Other Income	<u>23,269</u>	<u>33,465</u>	<u>10,196</u>
Total Revenue	<u>701,764</u>	<u>464,169</u>	<u>(237,595)</u>
EXPENDITURES			
Maintenance	84,278	72,138	(12,140)
Operating Expenses			
Assessments Transferred to			
Replacement Fund **	118,008	120,888	2,880
Utilities	107,988	98,673	(9,315)
Administrative Expenses			
Depreciation	1,042	-	(1,042)
Income Taxes	68,415	600	(67,815)
Insurance	37,834	40,000	2,166
Management Fees	20,933	20,700	(233)
Office and			
Communications	7,094	11,173	4,079
Payroll and Related			
Expenses	94,158	90,630	(3,528)
Professional Fees	5,990	5,000	(990)
Property Taxes	1,923	900	(1,023)
Unit 204 Cost of Sale	<u>15,375</u>	<u>-</u>	<u>(15,375)</u>
Total Expenditures	<u>563,038</u>	<u>460,702</u>	<u>(102,336)</u>
EXCESS (DEFICIT) of			
REVENUE OVER			
EXPENDITURES	<u>\$ 138,726</u>	<u>\$ 3,467</u>	<u>\$ 135,259</u>

** Includes budgeted Loan Principal, Interest and Escrow amounts.

* A (variation) in revenue represents amounts in excess of the budget.

* A (variation) in expenditures represents amounts in excess of the budget.

CHEESMAN TOWER WEST

FUTURE MAJOR REPAIRS and REPLACEMENTS PROPOSED JULY 31, 2014

(NOT AUDITED)

The Association's Board of Directors contracted for a Reserve Study to update the 2008 estimates of the remaining useful lives and the replacement costs of the components of the Association's common property. The study was prepared by an independent consultant after inspection of the common areas. Replacement costs used in the study are based on estimates to repair or replace the components at the date of the study, March 31, 2014

The following table is based on the study and presents significant information about the components, estimated lives and estimated costs of replacement common property:

<u>COMPONENT</u>	<u>MAJOR PROJECTS</u>		<u>MINOR</u>	<u>TOTAL</u>
	<u>REMAINING</u> <u>LIFE (Years)</u>	<u>COST</u>	<u>PROJECTS</u> <u>COST</u>	
Concrete	16	\$ 155,797	\$ 29,250	\$ 185,047
Landscape -A	2	128,750	-	128,750
- B	22	232,537	118,073	350,610
Retaining Wall & Fence	15	101,646	74,772	176,418
Exterior Building Surfaces	25	136,604	156,793	293,397
Roofing	26	188,440	4,436	192,876
Composite Paneling	11-18	1,756,232	-	1,756,232
Clubhouse		-	347,423	347,423
Boilers, etc.	26	366,411	170,776	537,187
Elevators	26	406,193	36,614	442,807
Miscellaneous		-	68,235	68,235
TOTALS		<u>\$ 3,472,610</u>	<u>\$ 1,006,372</u>	<u>\$ 4,478,982</u>