

L.R. COMPTON II, LLC

Certified Public Accountants

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February 4, 2014

Norseman Condominium Association, Inc.
% Weststar Management Corp.
6795 Tennessee Ave. Suite 601
Denver, Colorado 80224

Attn: Ricardo Lases, Manager

Re: December 31, 2012 and 2011 Financial Statements

Dear Ricardo:

We have completed our audit of the financial statements of Norseman Condominium Association, Inc. at December 31, 2012 and 2011 and for the years then ended. Thank you for passing on the Board's approval. Five (5) bound copies of the report are enclosed. Also enclosed is one copy that is not bound for Weststar's use.

Please email or mail the "Representation Letter" initialed and signed by the Board and you to us for our files

Thanks for the check.

Thank you again for selecting L.R. Compton II, CPA's to perform your annual audit, and we do appreciate your time and help.

Sincerely,

A handwritten signature in blue ink, appearing to be 'L. R. Compton II', written over the word 'Sincerely,'.

L. R. Compton II, CPA
Managing Principal

Enc.

Enc.

***NORSEMAN CONDOMINIUM
ASSOCIATION, INC.***

**FINANCIAL STATEMENTS, and
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012 and 2011

***NORSEMAN CONDOMINIUM
ASSOCIATION, INC.***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 and 2011

L.R. COMPTON II, LLC
CERTIFIED PUBLIC ACCOUNTANTS
3595 SOUTH TELLER STREET, SUITE 402
LAKEWOOD, COLORADO 80235

NORSEMAN CONDOMINIUM ASSOCIATION, INC.

DECEMBER 31, 2012 and 2011

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Norseman Condominium Association, Inc.
Denver, Colorado

We have audited the accompanying financial statements of Norseman Condominium Association, Inc., which comprise the balance sheet as of December 31, 2012 and 2011, and the related statements of revenue, expenditures and changes in fund balance 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.

Norseman Condominium Association, Inc.

Independent Auditor's Report
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norseman Condominium Association, Inc. as of December 31, 2012 and 2011, 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.

Replacement Schedule

Norseman Condominium Association, Inc. has not yet accepted an outside, professionally prepared estimate of the remaining lives and replacement costs of the common property and, therefore, has not presented a proposed schedule of future major repairs and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be part of, the basic financial statements.

Lakewood, Colorado
October 10, 2013



**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**
BALANCE SHEETS

	DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
<u>ASSETS</u>				
Current Assets				
Cash	\$ 15,307	\$ (181)	\$ 15,126	\$ 1,930
Accounts Receivable, Net	611	-	611	4,103
Prepaid Items	<u>3,498</u>	<u>-</u>	<u>3,498</u>	<u>2,490</u>
Total Current Assets	19,416	(181)	19,235	8,523
Property and Equipment				
Property Improvements	44,338	-	44,338	44,338
Condominium	50,000	-	50,000	50,000
Building Improvements	149,077	-	149,077	149,077
Equipment	<u>140,383</u>	<u>-</u>	<u>140,383</u>	<u>140,383</u>
Investment in Property and Equipment	383,798	-	383,798	383,798
Less Accumulated Depreciation	<u>(283,494)</u>	<u>-</u>	<u>(283,494)</u>	<u>(272,647)</u>
Total Property and Equipment, Net	100,304	-	100,304	111,151
Other Assets				
Interfund Balances	<u>(26,638)</u>	<u>26,638</u>	<u>-</u>	<u>-</u>
Total Other Assets	(26,638)	26,638	-	-
<u>TOTAL ASSETS</u>	<u>\$ 93,082</u>	<u>\$ 26,457</u>	<u>\$ 119,539</u>	<u>\$ 119,674</u>

See Notes to Financial Statements

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

BALANCE SHEETS
(Continued)

	DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
<u>LIABILITIES and FUND BALANCES</u>				
Current Liabilities				
Accounts Payable	\$ 10,701	\$ 14,080	\$ 24,781	\$ 17,351
Prepaid Assessments	15,086	-	15,086	2,043
Rental Unit Deposit	-	-	-	650
Current Portion, Long-Term Debt	<u>4,505</u>	<u>-</u>	<u>4,505</u>	<u>4,191</u>
Total Current Liabilities	30,292	14,080	44,372	24,235
Long-Term Liabilities				
Long-Term Debt, Net	<u>56,262</u>	<u>-</u>	<u>56,262</u>	<u>60,774</u>
Total Liabilities	86,554	14,080	100,634	85,009
FUND BALANCES				
Operating Fund	6,528	-	6,528	6,460
Replacement Fund	<u>-</u>	<u>12,377</u>	<u>12,377</u>	<u>28,205</u>
Total Fund Balances	<u>6,528</u>	<u>12,377</u>	<u>18,905</u>	<u>34,665</u>
TOTAL LIABILITIES and FUND BALANCES	\$ <u>93,082</u>	\$ <u>26,457</u>	\$ <u>119,539</u>	\$ <u>119,674</u>

See Notes to Financial Statements

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

STATEMENTS of REVENUE, EXPENDITURES
and CHANGES in FUND BALANCES

	YEARS ENDED DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 126,333	\$ 10,671	\$ 137,004	\$ 135,631
Special Assessments	-	46,868	46,868	18,996
Other Owner Activities	2,290	-	2,290	1,933
Rental Income	7,030	-	7,030	8,340
Other Income	10,143	8	10,151	8,267
Total Revenue	145,796	57,547	203,343	173,167
EXPENDITURES				
Maintenance	45,613	-	45,613	52,373
Operating				
Utilities	46,537	-	46,537	61,778
Total Operating	46,537	-	46,537	61,778
Replacement Projects	-	73,375	73,375	4,445
Administrative				
Bad Debts (Recoveries)	(6,783)	-	(6,783)	9,239
Depreciation	10,847	-	10,847	10,847
Income Taxes	-	-	-	-
Insurance	15,991	-	15,991	10,645
Management Fees	15,000	-	15,000	14,700
Mortgage Interest	4,572	-	4,572	4,449
Office	5,877	-	5,877	9,734
Professional	8,074	-	8,074	12,562
Total Administrative	53,578	-	53,578	72,176
Total Expenditures	145,728	73,375	219,103	190,772
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	68	(15,828)	(15,760)	(17,605)
Fund Balances, Beginning of Year	6,460	28,205	34,665	52,270
FUND BALANCES, End of Year	<u>\$ 6,528</u>	<u>\$ 12,377</u>	<u>\$ 18,905</u>	<u>\$ 34,665</u>

See Notes to Financial Statements

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
CASH PROVIDED (USED) by OPERATING ACTIVITIES:				
Excess (Deficit) of Revenue Over Expenditures	\$ 68	\$ (15,828)	\$ (15,760)	\$ (17,605)
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Depreciation	10,847	-	10,847	10,847
Accounts Receivable, Net	3,492	-	3,492	(2,754)
Prepaid Items	(1,008)	-	(1,008)	(640)
Accounts Payable	(6,650)	14,080	7,430	6,312
Prepaid Assessments	<u>13,043</u>	<u>-</u>	<u>13,043</u>	<u>684</u>
Total Cash Provided (Used) by Operating Activities	19,792	(1,748)	18,044	(3,156)
CASH PROVIDED (USED) by INVESTING ACTIVITIES:				
Reduction of Long-Term Debt	(4,198)	-	(4,198)	(3,584)
Return of Rental Unit Deposit	(650)	-	(650)	-
Interfund Transfers	<u>86</u>	<u>(86)</u>	<u>-</u>	<u>-</u>
Total Cash Provided (Used) by Investing Activities	<u>(4,762)</u>	<u>(86)</u>	<u>(4,848)</u>	<u>(3,584)</u>
NET INCREASE/ (DECREASE) in CASH	15,030	(1,834)	13,196	(6,740)
Cash, Beginning of Year	<u>277</u>	<u>1,653</u>	<u>1,930</u>	<u>8,670</u>
CASH, End of Year	\$ <u>15,307</u>	\$ <u>(181)</u>	\$ <u>15,126</u>	\$ <u>1,930</u>
Supplemental Disclosures:				
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>4,572</u>	\$ <u>-</u>	\$ <u>4,572</u>	\$ <u>4,449</u>

See Notes to Financial Statements

NORSEMAN CONDOMINIUM ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

Norseman Condominium Association, Inc. (the Association) was incorporated as a Colorado Nonprofit Corporation under the laws of the State of Colorado on January 3, 1979 (amended and restated September 26, 2011) to operate and manage the common interest community, and operate and manage the property and common elements included within the community for the benefit of the owners of the fifty-one condominiums located in the City and County of Denver, Colorado. All owners of a condominium are members of the Association; however, there is only one vote per condominium on matters before the Association. The three person volunteer Board of Directors is made up of owners of member condominiums.

The Association is the owner, by grant from the developer, of the common areas. The Association is charged with the administration (including management, security and professional services), maintenance, operation, repair and replacements within the common areas as well as for the costs of insurance, real estate taxes and assessments, water, electricity and other necessary utility expenses for the common areas. The Association may acquire, use and maintain personal property in connection with its operation and/or administration of the common area. It has acquired Condominium #104 and the Board oversees its rental.

To accomplish the foregoing, the Association may charge and collect a common assessment to/from each condominium (which may have one or more owners). Additionally, the Association may designate part of the annual charge as an assessment for a replacement fund to provide for future major maintenance and replacement projects within the common areas, including Unit #104. The Board has also levied special assessments in 2012 and 2011 to fund specific major projects.

The Association also charged each original owner an assessment equal to two (2) times the assessment at the time of purchase to provide additional operating funds. The Board has directed the transfer of these funds to the operating fund. This original assessment is not refundable to a selling owner; however, a purchasing owner should reimburse a selling owner at closing. Additionally, a move-in/move out fee and a pet ownership fee was approved in 2012.

Significant Accounting Policies

Method of Accounting

The financial statements of Norseman Condominium Association, Inc. are prepared on the accrual basis of accounting including the use of fund accounting for the operating fund and the replacement fund.

NORSEMAN CONDOMINIUM ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011
(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies

Assessments Receivable, Net

The net accounts receivable from owner assessments, late payment fees and other member charges are, in management's opinion, collectible in full. The Association has various legal remedies to help ensure total collection of assessments and late fees as well as other charges; However, due to the time and cost of collections, some owner receivables may not be collectable in full. At December 31, 2012 and 2011, \$6,500 and \$15,000 has been established as an allowance for uncollectable accounts. This amount represents owners with balances due that exceed a year since any collections were made.

Prepaid Items

The Association may pay annual insurance premiums when billed and may also fund other expenses in advance of actual use. Expenses associated with future periods are classified and recorded as prepaid items and expensed in the appropriate accounting periods.

Property and Equipment

Property and equipment purchases are recorded at cost. Amounts expended for improvements to increase the useful life of equipment are capitalized. Maintenance, repairs and minor replacements are expensed as incurred. The capitalized cost of property and equipment is being depreciated over seven to thirty-nine year lives. Equipment is being depreciated on the double declining method.

Prepaid Assessments

Norseman Condominium Association, Inc. may collect assessments levied for future periods in advance. Such advance payments are recognized in the accounting period when earned.

Replacement Fund

The Association's Board has only restricted the use of any portion of the annual assessment to a Replacement Fund in the last two years. The Board has additionally levied a special assessment in the current year to generate additional funds for future replacements.

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 December 31, 2012 and 2011. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Income Taxes

Although Norseman Condominium Association, Inc. is a nonprofit corporation under Colorado statutes, it is responsible for federal and state income taxes on any earnings from interest, dividends or other income not derived from membership in the Association that may be offset by the expense of generating these earnings.

In 2012 and 2011, the Association elected to file cash basis corporate tax returns (Forms 1120 and 112). At December 31, 2012 and 2011, the Association has a membership loss carryforward of \$68,066 and \$34,953, respectively, to offset future excess member revenues.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Long-Term Debt

Norseman Condominium Association, Inc. is obligated under a fifteen year, 7.25% first mortgage, due in 2022, secured by Unit #104, with monthly payments summarized below:

<u>YEAR</u>	<u>AMOUNT</u>	<u>TOTAL</u>
2013 (Current Portion)	\$ 4,505	
2014	4,843	
2015	5,206	
2016	5,596	
2017	<u>6,016</u>	
Total for 5 years		\$ 26,166
2018-2022		<u>34,608</u>
Total Long-Term Debt		61,774
Less Current Portion		<u>(4,505)</u>
Long-Term Debt, Net		<u>\$ 52,262</u>

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011
(Continued)

Note 3 Special Assessments

During 2011, the Board elected to add to the Association's replacement fund through a special assessment. Owners were offered a five (5%) percent discount for early payment of the charge, or payment in full over four (4) months starting in June. The total special assessment for \$19,536 was pro-rated based on the same square footage formula as the operating fees, and was due in full by September 30, 2011. Early payment discounts of \$542 were taken by some owners and served to reduce the total of the reported special assessment revenue. As of year-end 2011, a total of \$17,708 has been collected, while the remaining \$1,286 is due primarily from the 2 unit owners who comprise 79% of the Association's accounts receivable.

Note 4 Concentration of Credit Risk

Accounting principals generally accepted in the United States require disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk. The required disclosures are of significant concentrations of credit risk regardless of the degree of such risk. As of December 31, 2012 and 2011, the Association's financial instruments that expose it to concentrations of credit risk consist of cash balances at financial institutions that are fully insured by the Federal Deposit Insurance Corporation.

Note 5 Subsequent Events

For the year ended December 31, 2012, the Association has evaluated subsequent events for potential recognition and disclosure through October 10, 2013, the date of financial statement issuance.

***NORSEMAN CONDOMINIUM
ASSOCIATION, INC.***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

L.R. COMPTON II, LLC
Certified Public Accountants

***Independent Auditor's Report on
Supplementary Information***

To the Board of Directors
Norseman Condominium Association, Inc.
Denver, Colorado

We have audited the financial statements of Norseman Condominium Association, Inc. as of and for the years ended December 31, 2012 and 2011, and our report thereon dated October 10, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The *Schedule of Revenue and Expenditures Versus Budget, Operating Fund* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the column marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Study of Future Major Repairs and Replacements*, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not an opinion or provide any assurance on it.

Lakewood, Colorado
October 10, 2013



NORSEMAN CONDOMINIUM ASSOCIATION, INC.

SCHEDULE of REVENUE and EXPENDITURES VERSUS BUDGET, OPERATING FUND YEAR ENDED DECEMBER 31, 2012

Certain accounts from the 2012 internally prepared budget have been combined and appear in the following schedule in summary form to conform to the financial statement presentation herein. Amounts in () represent collections in excess of the 2012 budget or expenditures in excess of the 2012 budgeted amounts forecast by the Board when adopted in 2011.

	<u>Actual</u>	<u>Budget (Not Audited)</u>	<u>(Over)/Under Budget</u>
REVENUE			
Assessments	\$ 137,004	\$ 137,331	\$ 327
Special Assessment	46,868	48,000	1,132
Other Owner Activities	2,290	1,200	(1,090)
Rental Income	7,030	8,300	1,270
Miscellaneous Income	<u>10,143</u>	<u>8,100</u>	<u>(2,043)</u>
Total Revenue	203,335	202,931	(404)
EXPENDITURES			
Maintenance	45,613	48,680	3,067
Operating Expenses			
Transfers to			
Replacement Fund:			
Reserve Assessment	10,671	10,671	-
Replacement Fund	46,868	48,000	1,132
Utilities	46,537	53,000	6,463
Administrative Expenses			
Bad Debts	(6,783)	2,000	8,783
Depreciation	10,847	-	(10,847)
Income Taxes	-	-	-
Insurance	15,991	11,000	(4,991)
Interest	4,572	5,000	428
Management Fees	15,000	15,000	-
Office	5,877	4,100	(1,777)
Professional Fees	<u>8,074</u>	<u>6,800</u>	<u>(1,274)</u>
Total Expenditures	<u>203,267</u>	<u>204,251</u>	<u>984</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	<u>\$ 68</u>	<u>\$ (1,320)</u>	<u>\$ 1,388</u>

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**

**SCHEDULE OF FUTURE MAJOR
REPAIRS and REPLACEMENTS**

DECEMBER 31, 2012

The Association's Board of Directors contracted a study in 2008, to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The study was prepared by an independent building consultant who inspected the common areas of the property. Costs were based on estimates, including 3.0% inflation, offset by "after tax" 2.04% earnings, 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.

The following table is based on the 2008 study and presents significant information about the components, estimated lives and costs of common property:

Components	2008 Estimated Remaining Useful Life in Years	2008 Estimated Current Replacement Cost
Building		
Roofs	15	\$ 544,700
Exterior Pool	5	7,000
Concrete	5	10,500
Decks and Rails	5 to 25	90,250
Fencing	5 to 15	19,200
Grounds	1 to 12	7,250
Siding and Trim		
Paint	5	130,200
Replace	25 to 30	<u>443,600</u>
TOTAL		<u>1,252,700</u>