

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2014**

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Norseman Condominium Association, Inc., which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 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 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 Norseman Condominium Association, Inc. as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Olson, Reyes & Sauerwein, LLC

Denver, Colorado

June 08, 2015

**Norseman Condominium
Association, Inc.
Balance Sheet
December 31, 2014**

Assets

	Operating Fund	Reserve Fund	Total
Current assets			
Cash and cash equivalents	\$ 3,542	\$ 40,743	\$ 44,284
Member assessments receivable, net of allowance of \$7,600	972	-	972
Accounts receivable special assessment	-	2,924	2,924
Due from operating fund	-	42,322	42,322
Prepaid expenses and other assets	1,256	-	1,256
Total current assets	5,770	85,989	91,759
Fixed Assets			
Building	68,000	-	68,000
Less accumulated depreciation	(35,315)	-	(35,315)
	32,685	-	32,685
Total assets	<u>\$ 38,455</u>	<u>\$ 85,989</u>	<u>\$ 124,444</u>

Liabilities and Fund Balances

Current liabilities			
Accounts payable	\$ 8,518	\$ -	\$ 8,518
Deferred assessments	6,275	-	6,275
Due to reserve fund	42,322	-	42,322
Current portion of long-term debt	5,912	-	5,912
Total current liabilities	63,027	-	63,027
Long-term debt, net of current portion	44,736	-	44,736
Fund balances	(69,307)	85,989	16,681
Total liabilities and fund balances	<u>\$ 38,455</u>	<u>\$ 85,989</u>	<u>\$ 124,444</u>

**Norseman Condominium
Association, Inc.
Statement of Revenues and Expenses
For the Year Ended December 31, 2014**

	Operating Fund	Reserve Fund	Total
Revenues			
Member assessments	\$ 145,536	\$ -	\$ 145,536
Special assessments	-	45,004	45,004
Interest	-	25	25
Board approved transfers to reserve fund	(16,842)	16,842	-
Rental income, net	5,500	-	5,500
Late fees and other income	14,744	-	14,744
Total revenues	<u>148,937</u>	<u>61,872</u>	<u>210,809</u>
Expenses			
Building and grounds	32,599	-	32,599
Trash removal	6,531	-	6,531
Administration	4,564	-	4,564
Insurance	22,410	-	22,410
Interest	1,815	-	1,815
Utilities	51,842	-	51,842
Snow removal	3,675	-	3,675
Professional fees	2,452	-	2,452
Repairs and replacements	-	32,637	32,637
Pool	2,981	-	2,981
Bad debts	1,367	-	1,367
Management fees	15,000	-	15,000
Total expenses	<u>145,235</u>	<u>32,637</u>	<u>177,872</u>
Excess of revenues over expenses	<u>\$ 3,702</u>	<u>\$ 29,235</u>	<u>\$ 32,937</u>

**Norseman Condominium
Association, Inc.
Statement of Changes in Fund Balances
For the Year Ended December 31, 2014**

	Operating Fund	Reserve Fund	Total
Fund balance, beginning of period	\$ (73,010)	\$ 56,754	\$ (16,256)
Excess of revenues over expenses	<u>3,702</u>	<u>29,235</u>	<u>32,937</u>
Fund balance, end of period	<u><u>\$ (69,307)</u></u>	<u><u>\$ 85,989</u></u>	<u><u>\$ 16,681</u></u>

**Norseman Condominium
Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2014**

	Operating Fund	Replacement Reserve Fund	Total
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 3,702	\$ 29,235	\$ 32,937
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation expense	2,473	-	2,473
Bad debt	1,367	-	1,367
Changes in asset and liability items			
(Increase) decrease in:			
Member assessments receivable	2,367	(2,924)	(557)
Prepays	2,178	-	2,178
Due from operating fund	-	20	20
Increase (decrease) in:			
Accounts payable	(5,732)	-	(5,732)
Due to reserve fund	(20)	-	(20)
Deferred assessments	706	-	706
Net cash provided by operating activities	<u>7,041</u>	<u>26,331</u>	<u>33,372</u>
Cash flows from financing activities:			
Principal payments on long-term debt	<u>(5,781)</u>	<u>-</u>	<u>(5,781)</u>
Net cash (used in) financing activities	<u>(5,781)</u>	<u>-</u>	<u>(5,781)</u>
Net increase in cash	1,260	26,331	27,591
Cash and cash equivalents at beginning of period	<u>2,282</u>	<u>14,412</u>	<u>16,694</u>
Cash and cash equivalents at end of period	<u><u>\$ 3,542</u></u>	<u><u>\$ 40,743</u></u>	<u><u>\$ 44,285</u></u>
<u>Supplemental disclosures of cash flow information</u>			
Cash paid during the period for:			
Income taxes	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Interest	<u><u>\$ 1,815</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,815</u></u>

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Norseman Condominium Association, Inc. (the “Association”) was incorporated on January 3, 1979 (amended and restated September 26, 2011), in the State of Colorado, to administer the operation and management of Norseman Condominium Association, Inc. building and common areas. The Association consists of 51 residential units and the common elements of the building and grounds, located in the City and County of Denver, Colorado.

Fund accounting on accrual basis

The Association operates according to its governing documents. The Association records its operations on the accrual basis. These financial statements separate funds into operating and replacement reserve funds:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association and recurring maintenance costs of the property.

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

Property and equipment

Common area property, which was conveyed by the developer to the Association, is carried at no value in the financial statements. In accordance with accounting rules established by the American Institute of Certified Public Accountants in its “Audits of Common Interest Realty Associations”, the Association’s policy is not to capitalize common area assets unless they are (1) separately disposable or (2) used to generate significant revenues on the basis of usage. Improvements to these assets are expensed as incurred. According to the Association’s governing documents, two-thirds of all unit owners, plus all mortgage holders, must approve dispositions of any common real property.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash equivalents include time deposits and certificates of deposit with original maturities of three months or less.

Prepaid expenses

The Association may acquire items such as insurance on an annual basis. Amounts not applicable to the current operating period are recorded as prepaid and expensed in the appropriate accounting period.

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 1 Summary of Significant Accounting Policies (continued)

Member assessments

Assessments by the Association are set by the Board of Directors on an annual basis and are payable monthly. Assessments are a legal obligation of the owners, and generally are regarded as secondary only to any first mortgage on the unit. Legal fees incurred in collection of assessments and late fees charged are included in the assessment receivable. The board has elected to establish a reserve for uncollectible assessments receivable from the owners in the amount of \$6,500 at December 31, 2014. Assessments receivable are shown net of the allowance for uncollectible assessments on the face of the balance sheet.

Deferred Assessments

The Association recognizes revenues as dues are assessed. Amounts received prior to the date of assessment are classified as deferred assessments. Deferred assessments amounted to \$6,275, as of December 31, 2014.

Concentration of credit risk

As of December 31, 2014, the Association's cash and temporary cash investments consisted of interest bearing accounts. It is the Association's policy to maintain its bank accounts at local financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2014 the Association's uninsured cash balance totaled none. The receivables at the balance sheet date represent fees due from homeowners. The Association's accounts receivable are subject to minimal risk.

Interfund transfers

At various times, the Operating Fund and Reserve Fund may not have completed the cash transfers required under accrual accounting. Cash held for transfer to or from one fund to the other fund, if any, is shown as due from one fund to the other.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Association to make accounting estimates that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NORSEMAN CONDOMINIUM
ASSOCIATION, INC.**
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 2 Income Taxes

The Association qualifies as a tax-exempt homeowners' association in accordance with Internal Revenue Service Code Section 528. Under that section, the Association excludes from taxation income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and 4.63% by the State of Colorado.

Management evaluates its tax positions to determine if the tax positions taken meet the minimum recognition threshold in connection with accounting for uncertainties in income tax positions taken or expected to be taken for the purposes of measuring and recognizing liabilities in the financial statements. Recognition of tax benefits of an uncertain tax position is required only when the position is "more likely than not" to be sustained assuming examination by taxing authorities. At December 31, 2014, the Association has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions taken or expected to be taken in future tax returns.

The Association files income tax returns in the U.S. federal jurisdiction and the State of Colorado. No tax returns are currently under examination. The statute of limitations on the Association's tax returns remains open for the years ended December 31, 2011 through December 31, 2014. The Association is not aware of any tax positions for which it is reasonable possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

For the year ended December 31, 2014 the Associations combined federal and state income tax liabilities were none.

Note 3 Replacement Reserve Funds

The Association's governing documents require that funds be accumulated for future repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future, nor has the board of directors developed a plan to fund those needs. When funds are required for major repairs and replacements, the Association plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

**NORSEMAN CONDOMINIUM
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 4 Long Term Debt

Long term debt consists of the following:

Note payable FirstBank, bearing interest at 3.375% due in monthly installments of \$627.73 beginning on April 1, 2013 due August 1, 2022, Collateralized by an assignment of assessments	\$ 44,736
Less current portion	<u>5,912</u>
Total long term debt	<u><u>\$ 50,648</u></u>

Approximate aggregate maturities of long-term debt during the next five years
are as follows:

Year ending December 31:

2015	\$ 5,912
2016	6,115
2017	6,324
2018	6,541
2019	6,765
Thereafter	<u>18,991</u>
	<u><u>\$ 50,648</u></u>

Note 5 Special Assessments

In 2014 the Association levied a special assessment in the amount of \$45,000 to facilitate, among other items necessary elevator, roof, sewer and concrete repairs as well as a new hot water exchanger. The amount of the assessment varied by homeowner based on the size of the individual units.

Note 6 Legal Actions

From time to time the Association may become involved in various litigation matters involving ordinary and routine claims incidental to homeowners associations. A significant portion of these matters involve the collection of delinquent assessments and covenant compliance wherein the Association is the plaintiff. Management currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the Association's financial condition

**NORSEMAN CONDOMINIUM
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NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 7 Real Estate Owned

Condominium Unit 104 is owned by the Association. The Association is renting the unit under a month to month lease requiring monthly rentals of \$795.

Note 8 Subsequent Events

In accordance with the provisions set forth in ASC 885, subsequent events, management has evaluated subsequent events existing in the Association's financial statements through the date of the Auditors' Report which is the date the financial statements are available for issue. Management has determined that there are no material subsequent events that would require recognition or additional disclosure in the Association's financial statements through this date.