

***QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

APRIL 30, 2014 and 2013

L.R. COMPTON II, LLC
Certified Public Accountants
3595 South Teller Street, Suite 402
Lakewood, Colorado 80235

QUAILRIDGE TOWNHOME CONDOMINIUMS ASSOCIATION, INC.

APRIL 30, 2014 and 2013

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Quailridge Townhome Condominiums Association, Inc.
Lakewood, Colorado

We have audited the accompanying financial statements of Quailridge Townhome Condominiums Association, Inc., which comprise the balance sheets as of April 30, 2014 and 2013, and the related statements of revenue, expenditures and changes in the 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 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.

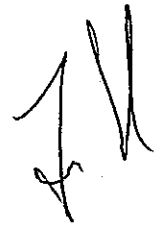
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Quailridge Townhome Condominiums Association, Inc
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Quailridge Townhome Condominiums Association, Inc. as of April 30, 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
July 21, 2014

A handwritten signature in black ink, consisting of stylized, overlapping loops and strokes, positioned to the right of the date.

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**
BALANCE SHEETS

	APRIL 30,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 35,932	\$ 212,875	\$ 248,807	\$ 282,726
Members Receivable, Net	1,732	-	1,732	5,064
Accounts Receivable, Other	-	-	-	10,206
TOTAL ASSETS	\$ 37,664	\$ 212,875	\$ 250,539	\$ 297,996
 LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and				
Accrued Liabilities	\$ 10,070	\$ -	\$ 10,070	\$ 8,813
Deferred Assessments	5,237	-	5,237	6,386
<i>Total Liabilities</i>	15,307	-	15,307	15,199
 FUND BALANCES				
Operating Fund	22,357	-	22,357	26,727
Replacement Fund	-	212,875	212,875	256,070
<i>Total Fund Balances</i>	22,357	212,875	235,232	282,797
 TOTAL LIABILITIES and FUND BALANCES	\$ 37,664	\$ 212,875	\$ 250,539	\$ 297,996

See Notes to Financial Statements

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

STATEMENTS of REVENUE, EXPENDITURES
and CHANGES in the FUND BALANCES

	YEARS ENDED APRIL 30,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 211,753	\$ 67,000	\$ 278,753	\$ 273,781
Other Member Income	4,694	-	4,694	4,617
Interest	-	317	317	192
Total Revenue	<u>216,447</u>	<u>67,317</u>	<u>283,764</u>	<u>278,590</u>
EXPENDITURES				
Maintenance				
Buildings	29,455	-	29,455	43,536
Grounds	34,133	-	34,133	19,368
Clubhouse	2,952	-	2,952	488
Pool/Tennis Court	6,872	-	6,872	12,188
Snow Removal	10,774	-	10,774	6,747
Total Maintenance	<u>84,186</u>	<u>-</u>	<u>84,186</u>	<u>82,327</u>
Operating				
Utilities	82,327	-	82,327	79,918
Total Operating	<u>82,327</u>	<u>-</u>	<u>82,327</u>	<u>79,918</u>
Replacement Projects	-	81,915	81,915	5,427
Administrative				
Bad Debts	9,706	-	9,706	8,851
Insurance	39,030	-	39,030	47,580
Management Fees	18,000	-	18,000	16,435
Office and Communications	2,886	140	3,026	9,904
Professional Fees	13,139	-	13,139	2,666
Total Administrative	<u>82,761</u>	<u>140</u>	<u>82,901</u>	<u>85,436</u>
Total Expenditures	<u>249,274</u>	<u>82,055</u>	<u>331,329</u>	<u>253,108</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	(32,827)	(14,738)	(47,565)	25,482
Interfund Transfers	28,457	(28,457)	-	-
Fund Balances, Beginning of Year	<u>26,727</u>	<u>256,070</u>	<u>282,797</u>	<u>257,315</u>
FUND BALANCES, End of Year	\$ <u>22,357</u>	\$ <u>212,875</u>	\$ <u>235,232</u>	\$ <u>282,797</u>

See Notes to Financial Statements

QUAILRIDGE TOWNHOME CONDOMINIUMS ASSOCIATION, INC.

STATEMENTS of CASH FLOWS

	YEARS ENDED APRIL 30,			
	2014			2013
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ (32,827)	\$ (14,738)	\$ (47,565)	\$ 25,482
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Members Receivable, Net	3,332	-	3,332	2,646
Accounts Receivable, Other	10,206	-	10,206	62,408
Accounts Payable and Accrued Liabilities	1,257	-	1,257	(640)
Deferred Assessments	(1,149)	-	(1,149)	(2,416)
<i>Total Cash Provided (Used) by Operating Activities</i>	<u>(19,181)</u>	<u>(14,738)</u>	<u>(33,919)</u>	<u>87,480</u>
<i>NET INCREASE (DECREASE) in CASH</i>	(19,181)	(14,738)	(33,919)	87,480
Cash, Beginning of Year	<u>55,113</u>	<u>227,613</u>	<u>282,726</u>	<u>195,246</u>
<i>CASH, End of Year</i>	<u><u>\$ 35,932</u></u>	<u><u>\$ 212,875</u></u>	<u><u>\$ 248,807</u></u>	<u><u>\$ 282,726</u></u>
<i>Supplemental Disclosure</i>				
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -	\$ -

See Notes to Financial Statements

QUAILRIDGE TOWNHOME CONDOMINIUMS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

APRIL 30, 2014 and 2013

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

Quailridge Townhome Condominiums Association, Inc. (Association) was incorporated September 07, 1984 as a Colorado Nonprofit Corporation. The Association is a membership corporation without certificates or shares of stock, and consists of 112 residential units in 14 buildings, the owners of which are the members. Although more than one person or entity may own a unit, only one vote per unit is allowed at Association meetings.

The Association is charged with the responsibility for the care, maintenance, preservation and architectural control of the unit exteriors and common areas as well as promoting the health, safety and welfare of the residents within the jurisdiction of the Association.

The powers and privileges of the Association are enumerated in its By-Laws and the Declaration of Covenants, Conditions and Restrictions (CC&R's) which provide for an elected Board of Directors to administer the responsibilities above as well as perform the fiscal duties required by a membership corporation. The Board may adopt a set of rules and regulations to assist in the operation of the project. It may further hire and delegate day-to-day responsibility for the operations to a professional association management company.

Significant Accounting Policies

Method of Accounting

The financial statements of Quailridge Townhome Condominiums Association, Inc. are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities.

Members Receivable

The assessments receivable arising from ordinary homeowner 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 townhome. The total owed to the Association includes any late and/or legal fees incurred in collection.

Prepaid Items

Quailridge Townhome Condominiums Association, Inc. may pay certain expenses such as insurance on an annual basis. The portions to be expensed in a future accounting period are recorded as prepaid items.

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.

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS

APRIL 30, 2014 and 2013

(Continued)

Significant Accounting Policies (Continued)

Deferred Assessments

When members pay their assessments in advance of the period for which they are billed, the Association records it as a liability and subsequently recognizes the income in the appropriate accounting period.

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.

Replacement Fund: This fund records that portion of unit owners' annual assessments restricted to future major maintenance, repair and replacement expenditures as projected in the Association's *Reserve Analysis: 2011 Update and Revision*. This study forecasts the cash necessary to fund the projects considered advisable to maintain the Association's property in good condition.

This fund is invested in income producing accounts, the income from which is recorded in the Replacement Fund. Income taxes, if any, are charged to the Operating Fund.

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 are recorded as other member income.

Income Taxes

The Association is responsible for any income taxes due on its income from sources unrelated to members' ownership of units. Such income may include interest, dividends, and other unrelated income. Income tax filings are for the year ended December 31. The Association may file under a special election as an Homeowners Association, or as a standard Corporation. For the years 2014 and 2013, the Association filed standard federal and state corporate tax returns that showed no income tax expense for the year.

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS

APRIL 30, 2014 and 2013

(Continued)

Significant Accounting Policies (Continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. Quailridge Townhome Condominiums Association, Inc. maintains its cash balances in national banks and with investment firms. The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at April 30, 2014 and 2013, for interest earning balances in national banks. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end April 30, 2014 and 2013, 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 April 30, 2014 and 2013. The fair value of debt, if any, is estimated based upon current interest rates for obligations with similar terms and maturities.

Reclassifications

Certain balances from the April 30, 2013 financial statements have been reclassified to conform to the presentation at April 30, 2014.

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: Members Receivable, Net

The receivables arising from ordinary homeowner 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 and legal fees incurred.

Collection of these debts, may require the Board of Directors exercise the Association's legal remedies and even if the Association were to act on its possible remedies, the debt and the costs to do so may not be totally recoverable, therefore an allowance for uncollectable accounts has been established of \$4,700 and \$5,200 at April 30, 2014 and 2013. Members Receivable, Net are shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts.

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS

APRIL 30, 2014 and 2013

(Continued)

NOTE 3: Accounts Receivable, Other

During the year ended April 30, 2013, certain reporting errors were noted in the payroll charges and reimbursements. Negotiations were entered into regarding the recovery of the discrepancies by the Board and the prior management company. Resolution was not attained. The entire amount of \$10,206 has been reserved as an allowance for uncollectable accounts. Accounts Receivable, Net is shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts.

NOTE 4: Replacement Fund

The Association's governing documents direct the Board to accumulate funds for future major maintenance, repairs and replacements. Accumulated funds are held in a separate account and are generally not available for day-to-day operations. The Board commissioned an independent building consultant to prepare a study of the future major maintenance, repair and replacement needs of the common areas of the Association. This study, originally completed in 2005, was updated and revised to project the need for funds and their possible use from 2011 through 2050. Actual earnings and expenditures may vary from the amounts estimated in the 2011 updated study, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major maintenance, repairs and replacements. If additional monies are found to be necessary, the Board has the right to increase regular assessments restricted to the Replacement Fund, pass special assessments, or delay the major maintenance and replacement projects until funds are available.

NOTE 5: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the 2011 "Reserve Study Update", and on owners' reports of physical conditions. During the year covered herein, the following projects were undertaken and completed by the Replacement Fund as of April 30:

<u>Project Description</u>	<u>2014</u>	<u>2013</u>
Sprinkler Replacements	\$ -	\$ 5,427
Paving	<u>81,915</u>	<u>-</u>
Total Replacement Projects	<u>\$ 81,915</u>	<u>\$ 5,427</u>

NOTE 6: 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.

***QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.***

NOTES to FINANCIAL STATEMENTS

APRIL 30, 2014 and 2013

(Continued)

NOTE 7: Subsequent Events

In preparing these financial statements, the Quailridge Townhome Condominiums Association, Inc.'s Board has evaluated events and transactions for potential recognition or disclosure through July 21, 2014, the date the financial statements were issued.

***QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.***

SUPPLEMENTARY INFORMATION

APRIL 30, 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
Quailridge Townhome Condominiums Association, Inc.
Lakewood, Colorado

Our report on our audit of the basic financial statements of Quailridge Townhome Condominiums Association, Inc. for April 30, 2014 and 2013 appears on page 1. The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information for the year ended April 30, 2014, *Actual Revenue and Expenditures Versus Budget for the Operating Fund*, on page 12, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such 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 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 for the Replacement Fund* presented on page 13, is not a required part of the basic financial statements of Quailridge Townhome Condominiums Association, Inc. at April 30, 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.

July 21, 2014



**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

ACTUAL REVENUE and EXPENDITURES VERSUS
BUDGET for the OPERATING FUND
YEAR ENDED APRIL 30, 2014

	ACTUAL	BUDGET (UNAUDITED)	VARIATION OVER/ UNDER BUDGET
REVENUE			
Assessments	\$ 278,753	\$ 278,753	\$ -
Other Income	<u>4,694</u>	<u>-</u>	<u>4,694</u>
Total Revenue	283,447	278,753	4,694
EXPENDITURES			
Maintenance			
Building	29,455	16,500	(12,955)
Grounds	34,133	27,800	(6,333)
Clubhouse	2,952	1,600	(1,352)
Pool/Hot Tub	6,872	6,500	(372)
Snow Removal	10,774	10,000	(774)
Operations			
Utilities	82,327	81,480	(847)
Administrative Expenses			
Bad Debts	9,706	3,000	(6,706)
Insurance	39,030	47,000	7,970
Management Fees	18,000	16,100	(1,900)
Office and Communications	2,886	4,600	1,714
Payroll Expense	-	2,000	2,000
Professional Fees	<u>13,139</u>	<u>3,250</u>	<u>(9,889)</u>
Total Expenditures	<u>249,274</u>	<u>219,830</u>	<u>(29,444)</u>
EXCESS of REVENUE FROM OPERATIONS			
	34,173	58,923	(24,750)
Assessments Transferred to Replacement Fund	<u>67,000</u>	<u>67,000</u>	<u>-</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES			
	\$ <u>(32,827)</u>	\$ <u>(8,077)</u>	\$ <u>(24,750)</u>

* A + variation in revenue represents an amount in excess of the budget
A () variation in expenditures represents an amount in excess of the budget.

**QUAILRIDGE TOWNHOME
CONDOMINIUMS ASSOCIATION, INC.**

FUTURE MAJOR REPAIRS and REPLACEMENTS

PROPOSED for the REPLACEMENT FUND

APRIL 30, 2014

(NOT AUDITED)

The Association's Board of Directors contracted a Reserve Analysis: 2011 Update and Revision to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The updated study was prepared by an independent building consultant who inspected the common areas of the property. Costs were based on estimates, including an assumption that inflation fluctuations are offset by 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 updated study and presents significant information about the components, estimated lives and costs of common property:

<u>Components</u>	<u>Estimated Life Years Left</u>	<u>Estimated Total Replacement Cost</u>
<u>Common Area</u>		
Sprinkler System	8	\$ 68,320
Landscape Refurbishment	4	10,000
Asphalt Overlay	7	120,250
Asphalt Seal Coat	2	13,949
Concrete Repair	4	15,000
Pool Boiler and Equipment	7	6,000
Spa Boiler	9	2,500
Pool Cover	5	2,500
Pool Fence	21	9,730
Pool and Spa Resurface	14	25,000
Tennis Court Resurface	1	13,000
Perimeter Wood Fence	18	60,000
Metal Railings	15	10,000
Mailboxes	8	8,000
Lighting	21	30,000
<u>Buildings</u>		
Roof and Gutters	29	340,000
Painting and Trim Repairs	2	123,200
Clubhouse Refurbishment	9	8,000
Clubhouse Furnace and A/C	3	5,000
Wood Decks	5	<u>15,000</u>
TOTAL		\$ <u>885,449</u>