

**STAPLETON FILING #2
TOWNHOME ASSOCIATION**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

FOR THE YEAR
ENDED DECEMBER 31, 2014

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Independent Auditor's Report

To the Board of Directors
Stapleton Filing #2 Townhome Association
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Stapleton Filing #2 Townhome Association, 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 Stapleton Filing #2 Townhome Association 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of "Future Major Repairs and Replacements" on page 11 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Olson, Reyes & Sauerwein, LLC

Denver, Colorado
May 18, 2015

**Stapleton Filing #2
Townhome Association
Balance Sheet
December 31, 2014**

Assets

Totals
(Memorandum Only)
December 31,

	Operating Fund	Replacement Reserve Fund	2014	2013
Current assets				
Cash and cash equivalents	\$ 20,077	\$ 5,910	\$ 25,987	\$ 49,469
Certificates of deposit	-	356,879	356,879	276,635
Investments	-	106,395	106,395	33,593
Accrued interest receivable	-	1,130	1,130	555
Assessments receivable, net of allowance of none	637	-	637	1,514
Prepaid expenses	9,008	-	9,008	9,197
Total current assets	29,722	470,314	500,036	370,963
 Total assets	 \$ 29,722	 \$ 470,314	 \$ 500,036	 \$ 370,963

Liabilities and Fund Balances

Current liabilities				
Accounts payable and accrued expenses	\$ 2,983	\$ -	\$ 2,983	\$ 448
Deferred assessments	10,663	-	10,663	10,948
Total current liabilities	13,646	-	13,646	11,396
 Fund balances	16,076	468,981	485,057	362,749
Accumulated other comprehensive income (loss)	-	1,333	1,333	(3,182)
 Total liabilities and fund balances	 \$ 29,722	 \$ 470,314	 \$ 500,036	 \$ 370,963

Stapleton Filing #2
Townhome Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2014

			Totals (Memorandum Only) December 31,	
	Operating Fund	Replacement Reserve Fund	2014	2013
Revenues:				
Member assessments	\$ 235,200	\$ -	\$ 235,200	\$ 223,440
Interest	-	3,095	3,095	4,985
Board approved transfers to reserve fund	(108,906)	108,906	-	-
Late fees and other income	1,461	-	1,461	350
Realized gain (loss) on investments	-	999	999	(3,640)
Total revenues	127,755	113,000	240,755	225,135
Expenses				
Building and grounds	49,448	-	49,448	49,061
Insurance	31,741	-	31,741	26,859
Management fees	16,800	-	16,800	16,800
Office and administrative expense	2,794	-	2,794	2,526
Professional fees	3,734	-	3,734	2,735
Snow removal	9,425	-	9,425	9,540
Utilities	4,505	-	4,505	4,740
Total expenses	118,447	-	118,447	112,261
Excess of revenues over expenses	9,308	113,000	122,308	112,874
Other comprehensive income:				
Unrealized gain (loss) on investments	-	4,515	4,515	(3,182)
Comprehensive income	\$ 9,308	\$ 117,515	\$ 126,823	\$ 109,692

Stapleton Filing #2
Townhome Association
Statement of Changes in Fund Balances
For the Year Ended December 31, 2014

			Totals (Memorandum Only) December 31,	
	Operating Fund	Replacement Reserve Fund	2014	2013
Fund balance, beginning of year	\$ 6,768	\$ 355,981	\$ 362,749	\$ 249,875
Excess of revenues over expenses	9,308	113,000	122,308	112,874
Fund balance, end of year	<u>\$ 16,076</u>	<u>\$ 468,981</u>	<u>\$ 485,057</u>	<u>\$ 362,749</u>

Stapleton Filing #2
Townhome Association
Statement of Cash Flows
For the Year Ended December 31, 2014

			Totals (Memorandum Only)	
	Operating Fund	Replacement Reserve Fund	2014	2013
Cash flows from operating activities:				
Comprehensive income	\$ 9,308	\$ 117,515	\$ 126,823	\$ 112,874
Adjustments to reconcile comprehensive income to net cash provided by operating activities:				
Unrealized (gain) loss on investments	-	(4,515)	(4,515)	3,182
Changes in asset and liability items				
(Increase) decrease in :				
Assessments receivable	877	-	877	(769)
Accrued interest receivable	-	(575)	(575)	(274)
Prepays	189	-	189	(2,132)
Increase (decrease) in:				
Accounts payable and accrued expenses	2,535	-	2,535	(2,294)
Deferred assessments	(285)	-	(285)	(2,267)
Net cash provided by (used in) operations	12,624	112,425	125,049	108,320
Cash flows from investing activities:				
Net (purchases) of Certificates of deposit	-	(80,244)	(80,244)	(201,311)
Net (purchases) sales of investments	-	(68,287)	(68,287)	4,750
Net cash provided (used) by investing activities	-	(148,531)	(148,531)	(196,561)
Net increase (decrease) in cash	12,624	(36,106)	(23,482)	(88,241)
Cash and cash equivalents at beginning of period	7,453	42,016	49,469	137,710
Cash and cash equivalents at end of period	\$ 20,077	\$ 5,910	\$ 25,987	49,469
<u>Supplemental disclosures of cash flow information</u>				
Cash paid during the year for:				
Income taxes	\$ -	\$ -	\$ -	\$ -
Interest	\$ -	\$ -	\$ -	\$ -

STAPLETON FILING #2
TOWNHOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Stapleton Filing #2 Townhome Association (the “Association”) was incorporated on June 4, 2002 in the State of Colorado, to administer the operation and management of Stapleton Filing #2 building and common areas. The Association consists of 98 townhome units, located in 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.

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.

Certificates of deposit and Investments

Certificates of deposit which the Association has the positive intent and ability to hold to maturity are reported as held-to-maturity securities. As such, these certificates of deposit are stated at cost, adjusted for amortization of premiums or accretion of discounts over their remaining lives. Investments not classified as held-to-maturity securities are classified as available-for-sale securities are reported at fair value, with unrealized gains and losses reported as a separate component of fund balances. Realized gains and losses on the disposition of securities and declines in value judged to be other than temporary are computed on a specific identification method and included in income.

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.

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.

STAPLETON FILING #2
TOWNHOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 1 Summary of Significant Accounting Policies (continued)

Interfund transfers

At various times, the Operating Fund and the Replacement 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.

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 \$10,663, as of December 31, 2014.

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 none at December 31, 2014. Assessments receivable are shown net of the allowance for uncollectible assessments on the face of the balance sheet.

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 had no uninsured cash balances. The receivables at the balance sheet date represent fees due from homeowners. The Association's accounts receivable are subject to minimal risk.

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.

Total columns

Total columns in the basic financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate comparison and financial analysis. Data in the columns does not present financial position or results of operations in conformity with generally accepted accounting principles since they are insufficiently detailed. Information for the prior year is derived from the audited financial statement form the year ended December 31, 2013.

STAPLETON FILING #2
TOWNHOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 1 Summary of Significant Accounting Policies (continued)

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 were available for issue. Management has determined that there were no material subsequent events that would require recognition or additional disclosure in the Association's financial statements through this date.

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. Accumulated funds are held in separate accounts and generally are not available for operating purposes.

STAPLETON FILING #2
TOWNHOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 3 Replacement Reserve Funds (continued)

The Association contracted an independent engineer in 2010 to conduct a replacement reserve study to estimate the remaining useful lives of the components of common property. The table included in the unaudited supplementary information of Future Major Repairs and Replacements is based on the study. Funds are being accumulated in the Replacement Reserve Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 4 Legal Actions

From time to time the Association may become involved in various litigation matters involving ordinary and routine claims incidental to homeowner 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.

Note 5 Fair Value Measurements

Accounting guidance establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consists of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

STAPLETON FILING #2
TOWNHOME ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 5 Fair Value Measurements (continued)

Financial assets carried at fair value as of December 31, 2014 are categorized in the table below in one of the three categories described above:

		Fair Value Measurement at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2014</u>	<u>Fair Value</u>			
Mortgage backed agency securities	\$ 106,395	\$ -	\$ 106,395	\$ -

**STAPLETON FILING #2
TOWNHOME ASSOCIATION**

SUPPLEMENTARY INFORMATION

STAPLETON FILING #2
TOWNHOME ASSOCIATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2014
(UNAUDITED)

The Association's Board of Directors commissioned a study in 2010 to estimate the remaining useful lives and 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 4.5% inflation, offset by after tax 3% earnings, to repair or replace the common property components at the date of the study

The following information is based on the 2010 study and presents information about the significant components of common property:

Components	2010 Estimated Remaining Useful Lives (years)	2010 Estimated Replacement Costs
Building		
Roofs	10-21	627,600
Concrete	3	11,000
Fencing	9-16	121,200
Grounds	2-4	11,000
Siding and trim		
Paint	0-4	165,350
Replacement	0-16	126,500
Total		<u>\$ 1,062,650</u>