

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC**

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
The Towers at Cheesman Park Condominium Association, Inc.
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of The Towers at Cheesman Park 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 The Towers at Cheesman Park 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.

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 10 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
February 17, 2015

**The Towers at Cheesman Park
Condominium Association, Inc.
Balance Sheet
December 31, 2014**

Assets				
	Operating Fund	Replacement Reserve Fund	Totals (Memorandum Only)	
			2014	2013
Current assets				
Cash and cash equivalents	\$ 49,389	\$ 188,823	\$ 238,212	\$ 304,853
Assessments receivable, net of allowance of \$1,250	3,021	-	3,021	3,297
Due from reserve fund	7,826	-	7,826	8
Prepaid expenses	4,427	-	4,427	4,337
Total current assets	<u>64,663</u>	<u>188,823</u>	<u>253,486</u>	<u>312,495</u>
 Total assets	 <u>\$ 64,663</u>	 <u>\$ 188,823</u>	 <u>\$ 253,486</u>	 <u>\$ 312,495</u>
 Liabilities and Fund Balances				
Current liabilities				
Accounts payable and accrued expenses	\$ 9,308	\$ -	\$ 9,308	\$ 7,794
Income taxes payable	-	-	-	357
Due to operating	-	7,826	7,826	8
Deferred assessments	18,569	-	18,569	18,629
Total current liabilities	27,877	7,826	35,703	26,788
 Fund balances	 <u>36,786</u>	 <u>180,997</u>	 <u>217,783</u>	 <u>285,707</u>
 Total liabilities and fund balances	 <u>\$ 64,663</u>	 <u>\$ 188,823</u>	 <u>\$ 253,486</u>	 <u>\$ 312,495</u>

**The Towers at Cheesman Park
Condominium Association, Inc.
Statement of Revenues and Expenses
Year Ended December 31, 2014**

	Operating Fund	Replacement Reserve Fund	Totals (Memorandum Only)	
			2014	2013
Revenues:				
Member assessments	\$ 351,144	\$ -	\$ 351,144	\$ 351,144
Interest	-	614	614	863
Board approved transfers to reserve fund	(67,950)	67,950	-	-
Late fees and other income	13,686	-	13,686	14,999
Total revenues	296,880	68,564	365,444	367,006
Expenses				
Building and grounds	75,377	-	75,377	65,467
Utilities	108,041	-	108,041	113,252
Snow removal	400	-	400	1,417
Payroll expenses	44,326	-	44,326	36,482
Bad debts (recoveries)	(886)	-	(886)	-
Insurance	41,548	-	41,548	39,106
Management fees	23,400	-	23,400	22,800
Office and communications	22,287	-	22,287	19,717
Professional fees	8,193	-	8,193	9,573
Repairs and replacements	-	43,263	43,263	28,512
Clubhouse remodel	-	67,419	67,419	-
Income taxes	-	-	-	357
Total expenses	322,686	110,682	433,368	336,683
Excess (deficit) of revenues over expenses	<u>\$ (25,806)</u>	<u>\$ (42,118)</u>	<u>\$ (67,924)</u>	<u>\$ 30,323</u>

**The Towers at Cheesman Park
Condominium Association, Inc.
Statement of Changes in Fund Balances
Year Ended December 31, 2014**

	Operating Fund	Replacement Reserve Fund	Totals (Memorandum Only) 2014	2013
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance, beginning of year	\$ 62,592	\$ 223,115	\$ 285,707	\$ 255,384
Excess (deficit) of revenues over expenses	<u>(25,806)</u>	<u>(42,118)</u>	<u>(67,924)</u>	<u>30,323</u>
Fund balance, end of year	<u>\$ 36,786</u>	<u>\$ 180,997</u>	<u>\$ 217,783</u>	<u>\$ 285,707</u>

**The Towers at Cheesman Park
Condominium Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2014**

	Operating Fund	Replacement Reserve Fund	Totals (Memorandum Only) 2014	2013
Cash flows from operating activities:				
Excess (deficit) of revenues over expenses	\$ (25,806)	\$ (42,118)	\$ (67,924)	\$ 30,323
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Bad debt	(886)	-	(886)	1,861
Changes in asset and liability items				
(Increase) decrease in :				
Due from reserve fund	(7,818)	-	(7,818)	387
Assessments receivable	1,161	-	1,161	2,633
Prepays	(90)	-	(90)	626
Increase (decrease) in:				
Accounts payable and accrued expenses	1,515	-	1,515	(479)
Income taxes payable	(357)	-	(357)	201
Deferred assessments	(60)	-	(60)	(12,398)
Due to operating fund	-	7,818	7,818	(387)
Net cash provided by (used in) operations	(32,341)	(34,300)	(66,641)	22,767
Net increase (decrease) in cash	(32,341)	(34,300)	(66,641)	20,906
Cash and cash equivalents at beginning of period	81,730	223,123	304,853	283,947
Cash and cash equivalents at end of period	\$ 49,389	\$ 188,823	\$ 238,212	\$ 304,853
<u>Supplemental disclosures of cash flow information</u>				
Cash paid during the year for:				
Income taxes	\$ 357	\$ -	\$ 357	\$ 156

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS**

Note 1 Summary of Significant Accounting Policies

The Towers at Cheesman Park Condominium Association, Inc. (the “Association”) was incorporated on June 2, 1999, in the State of Colorado, to administer the operation and management of The Towers at Cheesman Park Condominium Association building and common areas. The Association consists of 99 residential units and the common elements of the building and grounds, 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.

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.

**THE TOWERS AT CHEESMAN PARK
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 \$1,250 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 \$18,569, 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.

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

Note 1 Summary of Significant Accounting Policies (continued)

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 statements for the year ended December 31, 2013.

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.

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)**

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.

The Association contracted an independent engineer in 2013 to conduct a replacement reserve study to estimate the remaining useful lives of the components of common property. The study includes an inflation rate averaging 2.75% annually, and earnings on the Replacement Reserve Fund balances of an average .1%. The replacement reserve study recommends the reserve contribution be increased to \$5,500 per month beginning in January 2014, with an annual increase of 3% beginning in January 2015 and continuing until the end of the Study term.

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 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

Note 5 Subsequent Events

There were no subsequent events that require recognition or disclosure. In preparing these financial statements, management of the Association has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report, the date the financial statements were available for issuance.

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC.**

SUPPLEMENTARY INFORMATION

**THE TOWERS AT CHEESMAN PARK
CONDOMINIUM ASSOCIATION, INC.**
FUTURE MAJOR REPAIRS AND REPLACEMENTS
December 31, 2014
(UNAUDITED)

The Reserve Study, dated July 2013 is a report covering the projected expenditures from the replacement reserve funds of the Association from 2014 through 2043. The Study anticipates .1% earnings in the fund and projects a 2.75% inflation rate for expenditures during the period covered. The Study recommends that the reserve contribution be increased to \$5,500 per month beginning in January 2014, with an annual increase of 3% beginning in January 2015 and continuing until the end of the Study term.

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

Components	Estimated Remaining Useful Lives (years)	Estimated Current Replacement Costs 2013
Flatwork	2-27	322,568
Landscaping and Appurtenances	1-28	55,915
Substructure	3-28	50,748
Façade	1-25	311,883
Roofing	1	149,400
Interior	1-26	193,680
Mechanical	1-27	436,000
Fire and Life Safety	2-30	44,400
Amenities	1-30	165,000
Initial projection		<u><u>\$ 1,729,594</u></u>