

**THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.**

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

FOR THE THIRTEEN MONTHS
ENDED JANUARY 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Versailles Condominium Association, Inc., which comprise the balance sheet as of January 31, 2014, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the thirteen months 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 Versailles Condominium Association, Inc. as of January 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
March 30, 2014

**The Versailles Condominium
Association, Inc.
Balance Sheet
January 31, 2014**

Assets

	Operating Fund	Replacement Reserve Fund	Total
Current assets			
Cash and cash equivalents	\$ 2,720	\$ 30,257	\$ 32,977
Assessments receivable, net of allowance of none	12,492	-	12,492
Accounts receivable special assessment	60,276	-	60,276
Prepaid expenses	4,667	-	4,667
Total current assets	<u>80,155</u>	<u>30,257</u>	<u>110,412</u>
 Total assets	 <u>\$ 80,155</u>	 <u>\$ 30,257</u>	 <u>\$ 110,412</u>

Liabilities and Fund Balances

Current liabilities			
Accounts payable and accrued expenses	\$ 40,012	\$ 10,850	\$ 50,862
Deferred assessments	3,124	-	3,124
Current portion of long-term debt	<u>54,910</u>	<u>-</u>	<u>54,910</u>
Total current liabilities	98,046	10,850	108,896
 Long-term debt, net of current portion	 <u>52,565</u>	 <u>-</u>	 <u>52,565</u>
Total long term liabilities	52,565	-	52,565
 Fund balances (deficit)	 <u>(70,456)</u>	 <u>19,407</u>	 <u>(51,049)</u>
 Total liabilities and fund balances	 <u>\$ 80,155</u>	 <u>\$ 30,257</u>	 <u>\$ 110,412</u>

**The Versailles Condominium
Association, Inc.
Statement of Revenues and Expenses
For the Thirteen Months Ended January 31, 2014**

	Operating Fund	Replacement Reserve Fund	Total
Revenues:			
Member assessments	\$ 227,162	\$ -	\$ 227,162
Special assessments	18,994	-	18,994
Interest	-	100	100
Board approved transfer of reserve funds	10,599	(10,599)	-
Vending income	5,701	-	5,701
Late fees and other income	5,938	-	5,938
	<u>268,394</u>	<u>(10,499)</u>	<u>257,895</u>
Total revenues			
Expenses			
Administration	3,785	-	3,785
Bad debts	-	-	-
Building and grounds	93,835	10,850	104,685
Insurance	19,465	-	19,465
Interest expense	10,630	-	10,630
Landscaping	8,445	-	8,445
Management fees	16,525	-	16,525
Office and communications	4,229	-	4,229
Professional fees	16,455	-	16,455
Elevator maintenance	10,165	-	10,165
Chiller replacement	37,980	-	37,980
Snow removal	2,796	-	2,796
Trash removal	5,729	-	5,729
Water and sewer	14,461	-	14,461
Utilities	53,977	-	53,977
	<u>298,477</u>	<u>10,850</u>	<u>309,327</u>
Total expenses			
(Deficit) of revenues over expenses	<u>\$ (30,083)</u>	<u>\$ (21,349)</u>	<u>(51,432)</u>

**The Versailles Condominium
Association, Inc.
Statement of Changes in Fund Balances
For the Thirteen Months Ended January 31, 2014**

	Operating Fund	Replacement Reserve Fund	Total
Fund balance (deficit) January 1, 2013	\$ (40,373)	\$ 40,756	\$ (383)
(Deficit) of revenues over expenses	<u>(30,083)</u>	<u>(21,349)</u>	<u>51,432</u>
Fund balance(deficit) January 31, 2014	<u><u>\$ (70,456)</u></u>	<u><u>\$ 19,407</u></u>	<u><u>\$ (51,049)</u></u>

**The Versailles Condominium
Association, Inc.
Statement of Cash Flows
For the Thirteen Months Ended January 31, 2014**

	Operating Fund	Replacement Reserve Fund	Total
Cash flows from operating activities:			
(Deficit) of revenues over expenses	\$ (30,083)	\$ (21,349)	\$ (51,432)
Adjustments to reconcile (deficit) of revenues over expenses to net cash provided by (used in) operating activities:			
Changes in asset and liability items			
(Increase) decrease in :			
Assessments receivable	(483)	-	(483)
Special assessments receivable	59,505	-	59,505
Prepays	(808)	-	(808)
Increase (decrease) in:			
Accounts payable and accrued expenses	22,358	10,850	33,208
Deferred assessments	387	-	387
Net cash provided by (used in) operations	50,876	(10,499)	40,377
Cash flows from financing activities:			
Repayments of long-term debt	(59,069)	-	(59,069)
Net cash (used by) financing activities	(59,069)	-	(59,069)
Net (decrease) in cash	(8,193)	(10,499)	(18,692)
Cash and cash equivalents at beginning of period	10,913	40,756	51,669
Cash and cash equivalents at end of period	\$ 2,720	\$ 30,257	\$ 32,977
<u>Supplemental disclosures of cash flow information</u>			
Cash paid during the period for:			
Income taxes	\$ -	\$ -	\$ -
Interest	\$ 9,958	\$ -	\$ 9,958

THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

The Versailles Condominium Association, Inc. (the “Association”) was incorporated on March 31, 2000 in the State of Colorado, to administer the operation and management of The Versailles building and common areas. The Association consists of 58 condominium 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.

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.

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.

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.

THE VERSAILLES
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 determined that an allowance for uncollectible assessments is not necessary at January 31, 2014.

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 \$3,124, as of January 31, 2014.

Concentration of credit risk

As of January 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 January 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.

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.

THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 2 Income Taxes (continued)

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 January 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, 2010 through December 31, 2013. 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 thirteen months ended January 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.

The Association contracted an independent engineer in 2008 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.

THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

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 Subsequent Events

In preparing these financial statements, management of the Association has evaluated events and transactions for potential recognition or disclosure through the date of the report, the date of the financial statements were available for issue.

On July 2, 2014 the board of directors approved a dues increase of thirty percent effective August 01, 2014.

Note 6 Special Assessment

The Association collected a special assessment of \$18,994 for the thirteen months ended January 31, 2014 to replace the building cooling tower.

Note 7 Long-Term Debt

Long Term Debt Consists of the Following:

Note Payable bank, bearing interest at 7.25%,
Due in monthly installments of \$5,075 including
interest, due December, 2015, Collateralized by
an assignment of assessments.

\$ 107,475

Less Current Portion
Total Long Term Debt

54,910
\$ 52,565

THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(CONTINUED)

Note 7 Long-Term Debt (continued)

Approximate aggregate maturities of long-term debt are as follows:

Year ending January 31:

2015	\$ 54,910
2016	<u>52,565</u>
	<u>\$ 107,475</u>

**THE VERSAILLES
CONDOMINIUM ASSOCIATION, INC.**

SUPPLEMENTARY INFORMATION

THE VERSAILLES
 CONDOMINIUM ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 January 31, 2014
(UNAUDITED)

The Reserve Study, dated January 2008 is a report covering the projected expenditures from the replacement reserve funds of the Association from 2008 through 2028. Replacement costs were based on the estimated costs 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 and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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 2008
Paving and Curbing	4-20	\$ 44,687
Flatwork	8-20	22,355
Landscaping and Appurtenances	1-17	39,672
Façade	1-18	421,050
Roofing	10	102,600
Substructure	1-18	31,549
Interior	1-14	189,990
Amenities	1-10	19,795
Mechanical	1-20	330,330
Fire and Safety	10-12	22,000
Elevator	1	140,000
Initial projection		<u><u>\$ 1,364,028</u></u>