

STANTON FARMS TOWNHOMES ASSOCIATION, INC.

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012

Michele M. Giometti
Certified Public Accountant
P.O. Box 280631
Lakewood, Colorado 80228
(303) 986-6307 • (303) 986-6317 Fax • michgio@aol.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Stanton Farms Townhomes Association, Inc.

I have audited the accompanying balance sheets of Stanton Farms Townhomes Association, Inc., as of December 31, 2012, and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stanton Farms Townhomes Association, Inc. as of December 31, 2012, 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.

The supplementary information on future major repairs and replacements included in this report is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.



Michele M. Giometti, CPA
Lakewood, Colorado
June 13, 2013

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2012

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents (Note 2)	\$ 70,777	\$ 99,113	\$ 169,890
Investments		260,298	260,298
Assessments receivable, net of allowance for doubtful accounts of \$10,000	11,558		11,558
Prepaid insurance	10,604		10,604
Interfund receivable	<u>92,531</u>		<u>92,531</u>
<u>TOTAL ASSETS</u>	<u>\$ 185,470</u>	<u>\$ 359,411</u>	<u>\$ 544,881</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 10,017	\$	\$ 10,017
Prepaid assessments	10,823		10,823
Income taxes payable	574		574
Interfund payable		<u>92,531</u>	<u>92,531</u>
Total liabilities	21,414	92,531	113,945
Fund balance	<u>164,056</u>	<u>266,880</u>	<u>430,936</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 185,470</u>	<u>\$ 359,411</u>	<u>\$ 544,881</u>

The accompanying notes are an integral part
of the financial statements.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
STATEMENT OF REVENUES COLLECTED, EXPENSES PAID
AND CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Operating Fund	Replacement Fund	Total
<u>REVENUES</u>			
Member assessments (Note 3)	\$ 266,131	\$ 194,273	\$ 460,404
Late fees, fines and other member charges	3,511		3,511
Interest		3,959	3,959
Total Revenues	<u>269,642</u>	<u>198,232</u>	<u>467,874</u>
<u>EXPENSES</u>			
Water and sewer	68,885		68,885
Insurance	38,110		38,110
Grounds maintenance	30,142		30,142
Management fees	18,842		18,842
Roof and gutter maintenance	18,426	29,451	47,877
Trash removal	15,508		15,508
Legal	9,375		9,375
Sprinkler and backflow repairs	7,210		7,210
Office and administrative	6,642		6,642
Snow removal	5,520		5,520
Building maintenance	4,228		4,228
Electricity	3,266		3,266
Audit and tax preparation	1,650		1,650
Income taxes (Note 5)	574		574
Bad debt	497		497
Board education	290		290
Painting		59,585	59,585
Concrete and asphalt		18,917	18,917
Sprinkler system upgrade		7,057	7,057
Trees		6,800	6,800
Drainage		6,401	6,401
Landscape improvements		5,187	5,187
Reserve study		1,100	1,100
Loss on disposal of investments		946	946
Backflow		571	571
Total Expenses	<u>229,165</u>	<u>136,015</u>	<u>365,180</u>
Excess of Revenues over Expenses or (Expenses over Revenues)	40,477	62,217	102,694
Beginning fund balance	<u>123,579</u>	<u>204,663</u>	<u>328,242</u>
Ending fund balance	<u>\$ 164,056</u>	<u>\$ 266,880</u>	<u>\$ 430,936</u>

The accompanying notes are an integral part
of the financial statements.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2012

	Operating Fund	Replacement Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess / (Deficit) of revenues over expenses	\$ 40,477	\$ 62,217	\$ 102,694
(Increase) decrease in:			
Assessments receivable	(4,232)		(4,232)
Prepaid insurance	1,986		1,986
Other prepaid expenses	225		225
Increase (decrease) in:			
Accounts payable	6,466		6,466
Prepaid assessments	(1,699)		(1,699)
Income taxes payable	574		574
Net Cash Provided (Used) by Operating Activities	<u>43,797</u>	<u>62,217</u>	<u>106,014</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net purchase of long term investments		(65,039)	(65,039)
Net Cash Provided (Used) by Investing Activities	<u>0</u>	<u>(65,039)</u>	<u>(65,039)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Interfund receivable / payable	(53,796)	53,796	0
Net Cash Provided (Used) by Financing Activities	<u>(53,796)</u>	<u>53,796</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	(9,999)	50,974	40,975
CASH AT BEGINNING OF YEAR	<u>80,776</u>	<u>48,139</u>	<u>128,915</u>
CASH AT END OF YEAR	<u>\$ 70,777</u>	<u>\$ 99,113</u>	<u>\$ 169,890</u>

Supplemental disclosures of cash flow information:

Cash paid during the year for:

Interest expense	\$ 0	\$ 0	\$ 0
Income taxes	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part
of the financial statements.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1. NATURE OF ORGANIZATION

Stanton Farms Townhomes Association, Inc. (the Association), a nonprofit corporation organized under the laws of Colorado on May 24, 1983, was formed to manage, maintain and preserve the common area property on behalf of the members of the Association. The development consists of 189 residential units and is located in Jefferson County, Colorado. The Association is responsible for the maintenance and preservation of the common area, which includes grounds and improvements. It is also responsible for providing snow and trash removal, and insurance for the common areas.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING. The Association uses the accrual method of accounting for both financial statement and income tax return purposes.

FUND ACCOUNTING. The Association's governing documents provide certain guidelines for its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

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

CASH AND CASH EQUIVALENTS. The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

INTEREST INCOME. Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

RECOGNITION OF ASSETS AND DEPRECIATION POLICY. Real and personal common property acquired by the original unit owners from the developer, as well as replacements and improvements thereto, is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association's Board is restricted. Replacements and improvements to common property are not recognized as assets because their disposition is restricted.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3. MEMBERS' ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Member's assessments are determined by an annual budget approved by the board to meet operating costs and contribute to the replacement fund. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years.

For the year ended December 31, 2012, monthly assessments to members were \$203.

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregated \$359,411 at December 31, 2012, are held in separate savings accounts and certificates of deposit, and generally are not available for expenditures for normal operations.

The Association's Board of Directors retained an independent consultant to conduct a study in 2009 to estimate the remaining useful lives and the replacement costs of the common property components. The study was updated in November, 2012. The estimates were based on the then current replacement costs, including adjustments for future inflation and interest earned on investments. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

The Association is funding the reserves, and in 2012, \$194,273 was transferred to the reserve fund.

NOTE 5. FEDERAL AND STATE CORPORATE INCOME TAXES

As a corporation, the Association must file annual Federal and Colorado income tax returns. As a homeowner association, one of two federal forms can be filed – a Form 1120 Corporate Return, or a Form 1120-H Homeowner Association Return. Considerations made in selecting a form to be used include minimizing long-term income taxes, minimizing filing risks, and protecting the Association's reserve assessments from taxation.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

For the year ended December 31, 2012, the Association was taxed as a homeowners association and filed Form 1120-H. As a homeowners association, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. The Association had net taxable income resulting in Federal taxes of \$494 and state taxes of \$80 for the year ended December 31, 2012.

NOTE 6. VERIFICATION OF BOARD MEMBER DUES PAYMENTS

As part of this audit, a special request was made to verify board members have paid their dues during the audit period. Ledgers of the board members accounts were reviewed, and a sampling of payments were verified against bank deposits.

STANTON FARMS TOWNHOMES ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2012
Unaudited

The Association's Board of Directors retained an independent consultant to conduct a study in 2009 to estimate the remaining useful lives and the replacement costs of the common property components. The study was updated in November, 2012. The estimates were based on current replacement costs, with no adjustments for future inflation or interest earned, net of tax.

The following information is based on the study and presents significant information about the components of common property. The following information has not been updated for work in process or completed. However, the remaining useful life has been adjusted. See the reserve study for additional detail regarding the timing and frequency of the repairs and replacements for the various elements of the study.

<u>Component</u>	<u>Useful Life</u> <u>(Years)</u>	<u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>Current</u> <u>Average Cost</u>
Sprinkler systems	35	12	\$ 189,718
Landscape restoration	5	3	50,000
Tree trimming and removal	5	2	20,000
Community signage	20	9	8,000
Timber retaining walls	45	7	20,075
Block retaining walls	10	6	8,000
Asphalt overlay	20	9-10	480,480
Asphalt seal coat and crack fill	5	3-4	32,032
Concrete repairs	5	3	75,000
Maplewood fence	20	5	4,704
Utility line maintenance	20	15	30,000
Drainage repairs	5	2	50,000
Roofs	25	16	833,625
Gutters	25	10	43,784
Paint and trim repairs	7	0-7	226,800
Total			<u>\$ 2,072,218</u>