

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2005

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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July 21, 2006

INDEPENDENT AUDITOR'S REPORT

Board of Directors
No. 25 Downing Condominium Association, Inc.

I have audited the accompanying balance sheet of No. 25 Downing Condominium Association, Inc. as of December 31, 2005, and the related statements of revenues and expenses and changes in fund balances and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the management of No. 25 Downing Condominium Association, Inc. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 No. 25 Downing Condominium Association, Inc. as of December 31, 2005, and the results of its operations and its cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The supplementary information about future repairs and replacements on page eight is not a required part of the basic financial statements of No. 25 Downing Condominium Association, Inc. 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 express no opinion on it.

Frank J. Sassolino, CPA, P.C.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2005

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 38,274	\$ 26,220	\$ 64,494
Certificates of Deposit		194,480	194,480
Mortgage Backed Securities		10,714	10,714
Accrued Interest		298	298
Assessments Receivable - Homeowners	5,402		5,402
Prepaid Expenses	9,225		9,225
Deposits	200		200
<u>Total Assets</u>	<u>\$ 53,101</u>	<u>\$ 231,712</u>	<u>\$ 284,813</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 22,027	\$	\$ 22,027
Other Payables	925		925
Refundable Deposits	3,800		3,800
Income Tax Payable	146		146
Assessments Received in Advance	13,671		13,671
<u>Total Liabilities</u>	40,569		40,569
<u>Fund Balances</u>	12,532	231,712	244,244
<u>Total Liabilities and Fund Balances</u>	<u>\$ 53,101</u>	<u>\$ 231,712</u>	<u>\$ 284,813</u>

See Accompanying Notes to Financial Statements.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member Assessments	\$ 389,761	\$ 39,600	\$ 429,361
Late Fees and Other Income	9,255		9,255
Interest and Dividend Income		5,945	5,945
<u>Total Revenues</u>	<u>399,016</u>	<u>45,545</u>	<u>444,561</u>
<u>EXPENSES</u>			
Gas and Electric	93,807		93,807
Salaries, Wages and Related Expenses	68,898		68,898
Insurance	34,120		34,120
Heating and Air Conditioning Repairs	32,925		32,925
Bad Debt	28,147		28,147
Janitor Expense	24,568		24,568
Building Repairs and Maintenance	21,503		21,503
Management Fees	18,135		18,135
Elevator Repair and Maintenance	14,356		14,356
Water and Sewer	13,543		13,543
Grounds Maintenance	11,458		11,458
Security and Fire System	11,129		11,129
Office and Administration	9,379		9,379
Trash and Snow Removal	7,050		7,050
Electrical Repairs and Supplies	6,055	8,170	14,225
Legal and Accounting	4,718		4,718
Equipment	1,730		1,730
Income Tax	279		279
Seal Coating and Painting		2,625	2,625
<u>Total Expenses</u>	<u>401,800</u>	<u>10,795</u>	<u>412,595</u>
<u>Revenues Over (Under) Expenses</u>	(2,784)	34,750	31,966
Fund Balances, December 31, 2004	15,721	196,557	212,278
Interfund Transfer	(405)	405	
<u>Fund Balances, December 31, 2005</u>	<u>\$ 12,532</u>	<u>\$ 231,712</u>	<u>\$ 244,244</u>

See Accompanying Notes to Financial Statements.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
Revenues Over (Under) Expenses	(\$ 2,784)	\$ 34,750	\$ 31,966
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Homeowner	25,589		25,589
Decrease in Accrued Interest		908	908
Decrease in Prepaid Taxes	133		133
Increase in Prepaid Expenses	(6,990)		(6,990)
Increase in Other Payables	487		487
Decrease in Accounts Payable	(943)		(943)
Decrease in Assessments Received in Advance	(1,798)		(1,798)
Increase in Income Tax Payable	21		21
Increase in Deposits	3,000		3,000
<u>Net Cash Provided By Operating Activities</u>	<u>16,715</u>	<u>35,658</u>	<u>52,373</u>
<u>Cash Flows Provided (Used) By Investing Activities</u>			
Increase in Certificates of Deposit		(64,999)	(64,999)
Decrease in Mortgage Backed Securities		7,882	7,882
<u>Net Cash Used By Investing Activities</u>		<u>(57,117)</u>	<u>(57,117)</u>
<u>Cash Flows (Used) Provided By Financing Activities</u>			
Interfund Transfer	(405)	405	
Net Increase (Decrease) in Cash and Cash Equivalents	16,310	(21,054)	(4,744)
<u>Cash and Cash Equivalents at Beginning of the Year</u>	<u>21,964</u>	<u>47,274</u>	<u>69,238</u>
<u>Cash and Cash Equivalents at December 31, 2005</u>	<u>\$ 38,274</u>	<u>\$ 26,220</u>	<u>\$64,494</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes \$ 125

Interest Expense \$ -0-

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See Accompanying Notes to Financial Statements.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1: ORGANIZATION:

No. 25 Downing Condominium Association, Inc. was incorporated as a nonprofit corporation in the state of Colorado on February 11, 2000. The Association is responsible for the operating and maintenance of the common property of No. 25 Downing Condominium Association, Inc. No. 25 Downing Condominium Association, Inc. consists of 74 residential units located on approximately one acre in Denver, Colorado. The Association was formed on February 11, 2000, by No. 25 Downing, LLC, the developer of the project and Declarant under the project's Condominium Declaration. No. 25 Downing, LLC, appointed the initial Board of Directors that managed the Association during the period of declarant control. The period of declarant control ended October 24, 2000, with the election of the Board of Directors by the owners. On December 31, 2005, No. 25 Downing, LLC no longer owned any units.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

FUNDS

The Association is utilizing the fund method of accounting, which requires that funds, such as operating funds, working capital funds and funds for future major repairs and replacements, be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are generally at the discretion of the Board of the Association and the property manager. Disbursements from the replacement fund may be made only for designated purposes. The working capital fund may be used by the Association for emergencies, insurance deductibles in the event of casualty or other loss, capital expenditures for repair or replacement of common elements, and such other expenses which do not occur on a regular and on-going basis, as may be determined by a majority of the Executive Board.

BASIS OF ACCOUNTING

The accompanying financial statements and related corporate income tax returns have been prepared in accordance with the accrual method of accounting.

CONCENTRATION OF CREDIT RISK

The Association has one source of accounts receivable, Association members. Association members are the owners of the condominium units and accounts receivable from them may be secured by a lien upon their unit.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Association's policy is to enforce collection of assessments by retaining legal counsel and the placing of liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances. Therefore, no allowance for doubtful accounts has been set-up.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INVESTMENTS

Investments consist of various mortgages backed by the Federal National Mortgage Association and the Government National Mortgage Association. The interest rates on these mortgages, which mature from 2024 to 2029, range from 6.0% to 9.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2005, was \$10,493.

Investments in Certificates of Deposit will mature from 2006 - 2008 and are recorded at cost. Interest rates range from 2.5% to 4.5%. The aggregate market value of the Certificates of Deposit was \$193,998 at December 31, 2005.

The Board intends to hold these investments until maturity. Accordingly, the investments are recorded at cost.

NOTE 3: MEMBER 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. Members' assessments are based on their undivided interest in all common elements as prescribed in Exhibit B of the Condominium Declarations. Assessments receivable at the balance sheet date represents fees due from owners.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 4: WORKING CAPITAL FUND:

At the time of purchase, each initial condominium owner was required to make a contribution to the Association in the amount equal to two times the normal monthly assessment to establish a working capital fund. These funds have been included in the replacement fund balance. Funds in the working capital account are to be maintained in a segregated account for the use and benefit by the Association including, without limitation, to meet unforeseen expenditures or to purchase additional equipment, property, or services. In 2002 the Association disbursed \$27,719 from this fund for furniture, artwork, and improvements. The remainder of the fund was transferred into the replacement fund.

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$231,712, should be held in separate accounts and are generally not available for normal operations.

The Association engaged an independent engineer who conducted a study in August 2001 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. 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.

NOTE 6: INCOME TAXES:

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2005, the Association was taxed as a regular corporation. As a regular corporation, 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.

SUPPLEMENTARY INFORMATION
(Unaudited)

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2005
 (Unaudited)

An independent engineer conducted a study in August 2001 to estimate the remaining useful lives and the replacement costs of the components of common property. 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 significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Sprinkler System	22-24 Years	\$ 6,406
Landscape Refurbish	3 - 5 Years	5,000
Concrete	3 - 5 Years	5,000
Automatic Garage Door	23-25 Years	30,000
Roof	37-34 Years	220,000
Stucco	12-14 Years	280,000
Balcony Water Proofing	6 - 8 Years	41,650
Balcony Painting	7 - 9 Years	43,000
Window Repair & Maintenance	32-34 Years	30,000
Garage Ventilation System	17-19 Years	10,000
Garage Heating System	18-20 Years	12,600
HVAC	22-24 Years	44,000
Main Boiler	37-39 Years	30,000
Main Pumps	6 - 8 Years	7,500
Hot Water Boilers, Heat Exchangers	16-18 Years	24,000
Elevator Hydraulic Shaft	22-24 Years	30,000
Elevator Rooftop Units	17-19 Years	9,000
Refurbish Hallways & Common Areas	13-15 Years	84,300
Mailboxes and Intercom	27-29 Years	10,000
Exercise Room Equipment	8-10 Years	5,000
<u>Totals</u>		<u>\$ 927,456</u>

The Association is funding for future repairs and replacements using the "Cash Flow Method". The "Cash Flow Method" does not fund for each component separately; rather, the reserve funds are in a common pool to be used to meet the disbursement requirements of any component as it is forecasted by the remaining life. As of December 31, 2005, the Association had accumulated \$231,712 in its replacement fund. The minimum recommended annual contribution to the replacement fund is \$52,801. The amount of assessments designated to fund the replacement fund for 2006 is \$52,800.