

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2007

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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COMMUNITY ASSOCIATIONS INSTITUTE

April 5, 2008

**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, 2007, and the related statements of revenues and expenses and changes in fund balances and cash flows for the year ended December 31, 2007. 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, 2007, and the results of its operations and its cash flows for the year ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

The supplementary information about future repairs and replacements on pages eight and nine 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, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 71,483	\$ 35,503	\$ 106,986
Certificates of Deposit		244,114	244,114
Mortgage Backed Securities		21,240	21,240
Accrued Interest		1,414	1,414
Assessments Receivable - Homeowners	5,710		5,710
Deposits	200		200
<u>Total Assets</u>	<u>\$ 77,393</u>	<u>\$ 302,271</u>	<u>\$ 379,664</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 5,854	\$	\$ 5,854
Assessments Received in Advance	5,631		5,631
Income Tax Payable	5,583		5,583
<u>Total Liabilities</u>	<u>17,068</u>		<u>17,068</u>
<u>Fund Balances</u>	<u>60,325</u>	<u>302,271</u>	<u>362,596</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 77,393</u>	<u>\$ 302,271</u>	<u>\$ 379,664</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, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>REVENUES</u>			
Member Assessments	\$ 389,443	\$ 52,800	\$ 442,243
Late Fees and Other Income	7,756		7,756
Interest and Dividend Income		13,946	13,946
<u>Total Revenues</u>	<u>397,199</u>	<u>66,746</u>	<u>463,945</u>
<u>EXPENSES</u>			
Gas and Electric	82,860		82,860
Payroll and Related Expenses	80,509		80,509
Insurance	29,362		29,362
Heating and Air Conditioning Repairs	28,208	29,473	57,681
Management Fees	19,500		19,500
Building Repairs and Maintenance	19,048	20,000	39,048
Office and Administration	17,504		17,504
Janitorial Expenses	16,705		16,705
Water and Sewer	12,934		12,934
Elevator Repair and Maintenance	12,046		12,046
Grounds Maintenance	9,591		9,591
Trash and Snow Removal	6,617		6,617
Electrical Repairs and Supplies	6,043		6,043
Legal and Accounting	5,903		5,903
Income Tax	4,242		4,242
Security and Fire System	2,552		2,552
Exercise Equipment	968		968
Professional Fees		700	700
<u>Total Expenses</u>	<u>354,592</u>	<u>50,173</u>	<u>404,765</u>
<u>Revenues Over Expenses</u>	42,607	16,573	59,180
Fund Balances, December 31, 2006	31,848	271,568	303,416
Interfund Transfer	( 14,130)	14,130	
<u>Fund Balances, December 31, 2007</u>	<u>\$ 60,325</u>	<u>\$ 302,271</u>	<u>\$ 362,596</u>

See Accompanying Notes to Financial Statements.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
<u>Revenues Over Expenses</u>	\$ 42,607	\$ 16,573	\$ 59,180
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
<u>Changes in Assets and Liabilities:</u>			
Increase in Assessments Receivable - Homeowner	( 2,330)		( 2,330)
Increase in Accrued Interest		( 787)	( 787)
Decrease in Prepaid Expenses	1,151		1,151
Decrease in Accounts Payable	( 19,133)	( 3,836)	( 22,969)
Decrease in Other Payables	( 925)		( 925)
Decrease in Assessments Received in Advance	( 3,727)		( 3,727)
Increase in Income Tax Payable	4,242		4,242
Decrease in Deposits	( 1,800)		( 1,800)
<u>Net Cash Provided By Operating Activities</u>	<u>20,085</u>	<u>11,950</u>	<u>32,035</u>
 <u>Cash Flows Provided (Used) By Investing Activities</u>			
Increase in Certificates of Deposit		( 24,633)	( 24,633)
Increase in Mortgage Backed Securities		( 12,614)	( 12,614)
<u>Net Cash Used By Investing Activities</u>		<u>( 37,247)</u>	<u>( 37,247)</u>
 <u>Cash Flows Provided (Used) By Financing Activities</u>			
Decrease in Interfund Liability	( 19,922)	19,922	
Interfund Transfer	( 14,130)	14,130	
<u>Net Cash Provided (Used) by Financing Activities</u>	<u>( 34,052)</u>	<u>34,052</u>	
 Net Increase (Decrease) in Cash and Cash Equivalents	( 13,967)	8,755	( 5,212)
 <u>Cash and Cash Equivalents at Beginning of the Year</u>	<u>85,450</u>	<u>26,748</u>	<u>112,198</u>
 <u>Cash and Cash Equivalents at December 31, 2007</u>	<u>\$ 71,483</u>	<u>\$ 35,503</u>	<u>\$ 106,986</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

    Income Taxes       \$ -0-

    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, 2007

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.

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.

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.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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 2037, range from 6.0% to 9.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2007, was \$20,951.

Investments in Certificates of Deposit will mature from 2008 - 2009 and are recorded at cost. Interest rates range from 4.50% to 5.211%. The aggregate market value of the Certificates of Deposit was \$244,467 at December 31, 2007.

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.

**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: INCOME TAXES:**

The Association qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2007. Under that section, the Association is not taxed on 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 at 4.63% by the State of Colorado.



NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

NOTE 6: 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 \$302,271, 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 January 2007 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 .