

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2008

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June 23, 2009

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, 2008, and the related statements of revenues and expenses and changes in fund balances and cash flows for the year ended December 31, 2008. 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, 2008, and the results of its operations and its cash flows for the year ended December 31, 2008, 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

FOR THE YEAR ENDED DECEMBER 31, 2008

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 46,039	\$ 30,834	\$ 76,873
Certificates of Deposit		269,639	269,639
Mortgage Backed Securities		62,938	62,938
Accrued Interest		2,093	2,093
Assessments Receivable - Homeowners	7,706		7,706
Prepaid Expenses	5,900		5,900
Prepaid Income Tax	2,429		2,429
Due From Operating Fund		15,864	15,864
Due To Replacement Fund	(15,864)		(15,864)
<u>Total Assets</u>	\$ <u>46,210</u>	\$ <u>381,368</u>	\$ <u>427,578</u>

LIABILITIES AND FUND BALANCES

<u>Liabilities</u>			
Accounts Payable	\$ 27,732	\$	\$ 27,732
Assessments Received in Advance	14,702		14,702
Payroll Taxes Payable	2,507		2,507
Deferred Income	800		800
<u>Total Liabilities</u>	<u>45,741</u>		<u>45,741</u>
<u>Fund Balances</u>	<u>469</u>	<u>381,368</u>	<u>381,837</u>
<u>Total Liabilities and Fund Balances</u>	\$ <u>46,210</u>	\$ <u>381,368</u>	\$ <u>427,578</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, 2008

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 373,899	\$ 74,928	\$ 448,827
Late Fees and Other Income	6,750		6,750
Interest and Dividend Income	83	12,817	12,900
Realized Gain on Investments		520	520
<u>Total Revenues</u>	<u>380,732</u>	<u>88,265</u>	<u>468,997</u>
<u>EXPENSES:</u>			
Gas and Electric	114,553		114,553
Payroll and Related Expenses	82,567		82,567
Heating and Air Conditioning Repairs	37,268		37,268
Office and Administration	30,510		30,510
Insurance	25,125		25,125
Building Repairs and Maintenance	20,151		20,151
Janitorial Expenses	19,654		19,654
Legal and Accounting	19,247		19,247
Water and Sewer	13,627		13,627
Management Fees	13,392		13,392
Security and Fire System	13,142		13,142
Elevator Repair and Maintenance	12,922		12,922
Grounds Maintenance	10,485		10,485
Trash and Snow Removal	6,710		6,710
Electrical Repairs and Supplies	6,670		6,670
Garage Repairs and Maintenance	4,176		4,176
Fountain Repairs and Maintenance	4,154	3,575	7,729
Income Tax	2,371		2,371
Bad Debt	2,014		2,014
Exercise Equipment	1,850	5,593	7,443
<u>Total Expenses</u>	<u>440,588</u>	<u>9,168</u>	<u>449,756</u>
<u>Revenues Over (Under) Expenses</u>	(59,856)	79,097	19,241
Fund Balances, December 31, 2007	<u>60,325</u>	<u>302,271</u>	<u>362,596</u>
<u>Fund Balances, December 31, 2008</u>	<u>\$ 469</u>	<u>\$ 381,368</u>	<u>\$ 381,837</u>

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
<u>Revenues Over (Under) Expenses</u>	(\$ 59,856)	\$ 79,097	\$ 19,241
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
<u>Changes in Assets and Liabilities:</u>			
Increase in Assessments Receivable - Homeowner	(1,996)		(1,996)
Increase in Accrued Interest		(679)	(679)
Increase in Prepaid Expenses	(5,900)		(5,900)
Increase in Prepaid Income Tax	(2,429)		(2,429)
Increase in Accounts Payable	21,878		21,878
Increase in Assessments Received in Advance	9,071		9,071
Decrease in Income Tax Payable	(5,583)		(5,583)
Decrease in Deposits	200		200
Increase in Payroll Taxes Payable	2,507		2,507
Increase in Deferred Income	800		800
<u>Net Cash Provided (Used) By Operating Activities</u>	(<u>41,308</u>)	<u>78,418</u>	<u>37,110</u>
<u>Cash Flows Used By Investing Activities</u>			
Increase in Certificates of Deposit		(25,525)	(25,525)
Increase in Mortgage Backed Securities		(41,698)	(41,698)
<u>Net Cash Used By Investing Activities:</u>		(<u>67,223</u>)	(<u>67,223</u>)
<u>Cash Flows Provided (Used) By Financing Activities</u>			
Increase in Interfund Liability	<u>15,864</u>	(<u>15,864</u>)	
Net Decrease in Cash and Cash Equivalents	(25,444)	(4,669)	(30,113)
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>71,483</u>	<u>35,503</u>	<u>106,986</u>
<u>Cash and Cash Equivalents at December 31, 2008</u>	\$ <u>46,039</u>	\$ <u>30,834</u>	\$ <u>76,873</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes \$10,383

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

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 73 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.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008

INVESTMENTS

Investments consist of various mortgages backed by the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Mortgage Corp. and Freddie Mac. The interest rates on these mortgages, which mature from 2024 to 2037, range from 5.5% to 9.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2008, was \$62,015.

Investments in Certificates of Deposit will mature from 2009 - 2010 and are recorded at cost. Interest rates range from 2.096% to 3.80%. The aggregate market value of the Certificates of Deposit was \$270,946 at December 31, 2008.

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:

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2008, 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. At December 31, 2008, the Association has net membership losses available to be carried forward of \$58,863.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

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 \$365,504, 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.

SUPPLEMENTARY INFORMATION
(Unaudited)

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR

REPAIRS AND REPLACEMENTS

DECEMBER 31, 2008

(Unaudited)

An independent engineer conducted a study in January 2007 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 Year For Replacement</u>	<u>Estimated Current Replacement Costs</u>
Sprinkler System	2026	\$ 6,400
Landscape Refurbish	2009	5,000
Fountain Resurface/Repair	2009	5,000
Concrete	2009	5,000
Automatic Garage Door	2026	30,000
Roof	2036	220,000
Stucco	2016	280,000
Balcony Water Proofing/Paint Rails	2015	54,000
Window & Door Repairs	2031	30,000
Refurbish Entry Doors	2016	5,000
Garage Ventilation System	2021	10,000
Garage Heating System	2021	14,000
HVAC	2026	48,000
Main Boiler	2041	35,000
Main Pumps	2011	7,500
Hot Water Boilers	2020	32,000
Hot Water Storage Tanks	2020	30,000
Sump Pumps	2012	2,500
Building Ventilation Fans	2022	13,500
Cooling Tower Maintenance	2017	15,000
Elevator Hydraulic Shaft	2026	30,000
Elevator Rooftop Units	2021	9,000
Refurbish Hallways & Common Areas	2016	84,300
Hallways & Entry Carpet/Flooring	2021	40,000
Furniture & Office Equipment	2011	5,000
Appliances & Furnishings	2012	4,000
Mailboxes and Intercom	2031	10,000
Exercise Room Equipment	2012	5,000
<u>Total:</u>		<u>\$ 1,035,206</u>

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS

DECEMBER 31, 2008

(Unaudited)

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 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, 2008, the Association had accumulated \$365,504 in its replacement fund. The minimum recommended annual contribution to the replacement fund is \$61,912. The amount of assessments designated to fund the replacement fund for 2009 is \$0.