

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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July 9, 2014

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying financial statements of No. 25 Downing Condominium Association, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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

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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 December 31, 2013, 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 supplementary information about future major repairs and replacements on pages nine and ten 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Frank J. Scovelino CPA, LLC.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 40,759	\$ 37,636	\$ 78,395
Certificates of Deposit		387,307	387,307
Mortgage Backed Securities		76,441	76,441
Accrued Interest		2,485	2,485
Assessments Receivable - Homeowners	840		840
Prepaid Insurance	5,451		5,451
Prepaid Income Tax	514		514
<u>Total Assets</u>	<u>\$ 47,564</u>	<u>\$ 503,869</u>	<u>\$ 551,433</u>

LIABILITIES AND FUND BALANCES

<u>Liabilities</u>	\$ 24,149	\$	\$ 24,149
Accounts Payable	8,286		8,286
Assessments Received in Advance	4,457		4,457
Payroll Taxes Payable	8		8
Income Taxes Payable	<u>36,900</u>		<u>36,900</u>
<u>Total Liabilities</u>			
<u>Fund Balances</u>	<u>10,664</u>	<u>503,869</u>	<u>514,533</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 47,564</u>	<u>\$ 503,869</u>	<u>\$ 551,433</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, 2013

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 398,320	\$ 50,000	\$ 448,320
Late Fees and Other Income	4,940		4,940
Interest and Dividend Income	49	6,921	6,970
Realized Loss on Investments		(1,062)	(1,062)
Comcast Easement Income	1,825		1,825
<u>Total Revenues</u>	405,134	55,859	460,993
<u>EXPENSES:</u>			
Repairs and Maintenance:			
Heating and Air Conditioning Repairs	43,815		43,815
Janitorial Expenses	25,292		25,292
Building Repairs and Maintenance	20,579		20,579
Grounds and Fountain Maintenance	16,973		16,973
Security and Fire System	14,524		14,524
Trash and Snow Removal	9,200		9,200
Elevator Repair and Maintenance	8,889		8,889
Electrical Repairs and Supplies	3,937		3,937
Plumbing Repairs and Maintenance	3,198		3,198
Exercise Equipment	914		914
Water Storage Tanks		42,951	42,951
Door Improvements		10,183	10,183
Utilites:			
Gas and Electric	84,146		84,146
Water and Sewer	17,420		17,420
Payroll and Related Expenses	100,876		100,876
Insurance	26,330		26,330
Office and Administration	11,288		11,288
Management Fees	5,992		5,992
Social Events	3,270		3,270
Legal and Accounting	3,015		3,015
Income Tax	1,421		1,421
<u>Total Expenses</u>	401,079	53,134	454,213
 <u>Revenues Over Expenses</u>	 4,055	 2,725	 6,780
Fund Balances, December 31, 2012	13,556	494,197	507,753
Interfund Transfer	(6,947)	6,947	
 <u>Fund Balances, December 31, 2013</u>	 \$ 10,664	 \$ 503,869	 \$ 514,533

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
<u>Revenues Over Expenses</u>	\$ 4,055	\$ 2,725	\$ 6,780
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Realized Loss on Investments		1,062	1,062
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Homeowner	1,101		1,101
Increase in Accrued Interest		(1,594)	(1,594)
Increase in Prepaid Insurance	(125)		(125)
Increase in Prepaid Income Tax	(514)		(514)
Decrease in Other Prepaid Expenses	2,400		2,400
Increase in Accounts Payable	8,219		8,219
Decrease in Assessments Received in Advance	(11,344)		(11,344)
Increase in Payroll Taxes Payable	972		972
Decrease in Income Taxes Payable	(923)		(923)
Decrease in Deferred Income	(800)		(800)
<u>Net Cash Provided By Operating Activities</u>	<u>3,041</u>	<u>2,193</u>	<u>5,234</u>
<u>Cash Flows (Used) Provided By Investing Activities:</u>			
Increase in Certificates of Deposit		(55,489)	(55,489)
Decrease in Mortgage Backed Securities (Net)		<u>12,148</u>	<u>12,148</u>
<u>Net Cash (Used) By Investing Activities</u>		<u>(43,341)</u>	<u>(43,341)</u>
<u>Cash Flows (Used) Provided By Financing Activities:</u>			
Decrease in Interfund Liability	(2,376)	2,376	
Interfund Transfer	(6,947)	<u>6,947</u>	
<u>Net Cash (Used) Provided By Financing Activities</u>	<u>(9,323)</u>	<u>9,323</u>	
Net Decrease in Cash and Cash Equivalents	(6,282)	(31,825)	(38,107)
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>47,041</u>	<u>69,461</u>	<u>116,502</u>
<u>Cash and Cash Equivalents at December 31, 2013</u>	<u>\$ 40,759</u>	<u>\$ 37,636</u>	<u>\$ 78,395</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	\$2,858
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, 2013

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 72 residential units located on approximately one acre in Denver, Colorado.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

FUND ACCOUNTING

The Association's governing documents provide certain guidelines for governing 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 purposes.

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.

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 established.

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, 2013

NOTE 3: 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 2040, range from 4.0% to 9.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2013, was \$73,937.

Investments in Certificates of Deposit will mature through 2026. Interest rates range from .737% to 4.0%. The aggregate market value of the Certificates of Deposit was \$382,423 at December 31, 2013.

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

NOTE 4: 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 5: 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 6: INCOME TAXES:

The Association qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2013. 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.

As of December 31, 2013, the tax years that remain subject to examination by taxing authorities begin with December 31, 2010 for federal tax purposes and December 31, 2009 for state tax purposes.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 7: 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 \$503,869, should be held in separate accounts and are generally not available for normal operations.

The Association's management conducted a study in October 2012 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 8: SIMPLIFIED EMPLOYEE PENSION PLAN

The Association has a Simplified Employee Pension Plan (SEP) for its employee. Employer contributions are discretionary. The Association did make a contribution to the SEP for 2013.

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 9, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
(Unaudited)

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2013
 (Unaudited)

The Association's management conducted a study in October 2012 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	2025	\$ 6,406
Fountain Resurface/Repair	2018	5,000
Concrete	2015	5,000
Automatic Garage Door	2025	30,000
Roof	2035	220,000
Stucco	2030	280,000
Stucco Repairs and Caulking	2015	10,000
Balcony Water Proofing/Paint Rails	2017	54,000
Balcony Repairs	2014	5,000
Window & Door Repairs	2030	30,000
Window Repairs	2012	2,500
Garage Ventilation System	2020	10,000
Garage Heating System	2020	14,000
HVAC	2025	48,000
Main Boiler	2040	35,000
Main Pumps	2018	7,500
Hot Water Boilers	2019	32,000
Hot Water Storage Tanks	2012	33,000
Sump Pumps	2017	2,500
Building Ventilation Fans	2021	13,500
Cooling Tower Maintenance	2016	15,000
HVAC Controller	2012	6,000
Elevator Hydraulic Shaft	2025	30,000
Elevator Rooftop Units	2020	9,000
Hallways & Entry Carpet/Flooring	2020	40,000
Furniture & Office Equipment	2015	5,000
Appliances & Furnishings	2021	4,000
Mailboxes and Intercom	2030	10,000
Exercise Room Equipment	2014	5,000
<u>Total:</u>		<u>\$ 967,406</u>

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2013
(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 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, 2013, the Association had accumulated \$503,869 in its replacement fund. The minimum recommended annual contribution to the replacement fund for 2013 is \$50,000. The amount of assessments designated to fund the replacement fund for 2014 is \$55,000.

The Association removed hallway refurbishment from the study. The Association plans to pay for the refurbishment from the Operating Fund.

The Association is currently updating their Replacement Fund study.