

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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July 12, 2017

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of No. 25 Downing Condominium Association, Inc., which comprise the balance sheet as of December 31, 2016, 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our 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, 2016, 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

EFA • Associates, CPA, PC.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 45,470	\$ 25,815	\$ 71,285
Certificates of Deposit		249,439	249,439
Mortgage Backed Securities		82,606	82,606
Accrued Interest		921	921
Assessments Receivable - Homeowners	349		349
Accounts Receivable - Other		3,456	3,456
Prepaid Insurance	5,258		5,258
Prepaid Income Tax	1,427		1,427
Deposits		20,498	20,498
Machinery and Equipment	9,326		
Less Accumulated Depreciation	(1,377)		
<u>Total Assets</u>	<u>\$ 60,453</u>	<u>\$ 382,735</u>	<u>\$ 443,188</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 28,269	\$ 13,847	\$ 42,116
Assessments Received in Advance	16,657		16,657
Payroll Taxes Payable	3,408		3,408
Other Liabilities	1,600		1,600
<u>Total Liabilities</u>	<u>49,934</u>	<u>13,847</u>	<u>63,781</u>
<u>Fund Balances</u>	<u>10,519</u>	<u>368,888</u>	<u>379,407</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 60,453</u>	<u>\$ 382,735</u>	<u>\$ 443,188</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, 2016

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 426,438	\$ 58,350	\$ 484,788
Insurance Proceeds	16,217		16,217
Late Fees and Other Income	6,486		6,486
Interest and Dividend Income	54	6,565	6,619
Realized Gain on Investments		697	697
<u>Total Revenues</u>	<u>449,195</u>	<u>65,612</u>	<u>514,807</u>
<u>EXPENSES:</u>			
Repairs and Maintenance:			
Heating and Air Conditioning Repairs	29,281		29,281
Building Repairs and Maintenance	29,167		29,167
Janitorial Expenses	26,054		26,054
Loggia Remodel	19,765	60,685	80,450
Fountain Repairs	18,901		18,901
Grounds Maintenance	18,623		18,623
Elevator Repair and Maintenance	10,337	9,200	19,537
Security and Fire System	8,974		8,974
Electrical Repairs and Supplies	7,178		7,178
Trash and Snow Removal	5,368		5,368
Other Repairs and Maintenance	4,628		4,628
Plumbing Repairs and Maintenance	3,345		3,345
Garage and Driveway Repairs	3,340		3,340
Exercise Equipment	3,169		3,169
Water System - Booster Pumps		55,324	55,324
Utilities:			
Gas and Electric	78,781		78,781
Water and Sewer	22,199		22,199
Payroll and Related Expenses	115,289		115,289
Insurance	29,842		29,842
Office and Administration	8,958		8,958
Management Fees	8,501		8,501
Professional Services	4,410		4,410
Social Events	3,169		3,169
Income Tax	724		724
Depreciation	622		622
<u>Total Expenses</u>	<u>460,625</u>	<u>125,209</u>	<u>585,834</u>
<u>Revenues (Under) Expenses</u>	(11,430)	(59,597)	(71,027)
Fund Balances, December 31, 2015	23,666	426,768	450,434
Interfund Transfer	(1,717)	1,717	
<u>Fund Balances, December 31, 2016</u>	<u>\$ 10,519</u>	<u>\$ 368,888</u>	<u>\$ 379,407</u>

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Revenues (Under) Expenses	(\$ 11,430)	(\$ 59,597)	(\$ 71,027)
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation	622		622
Realized Loss on Investments		(697)	(697)
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Homeowner	425		425
Increase in Accounts Receivable - Other		(3,456)	(3,456)
Increase in Accrued Interest		(405)	(405)
Decrease in Prepaid Insurance	224		224
Increase in Prepaid Income Tax	(376)		(376)
Increase in Deposits		(20,498)	(20,498)
Increase in Accounts Payable	5,266	7,009	12,275
Increase in Assessments Received in Advance	8,371		8,371
Increase in Payroll Taxes Payable	195		195
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>3,297</u>	<u>(77,644)</u>	<u>(74,347)</u>
<u>Cash Flows (Used) Provided By Investing Activities:</u>			
Increase in Certificates of Deposit		(13,922)	(13,922)
Decrease in Mortgage Backed Securities (Net)		<u>22,277</u>	<u>22,277</u>
<u>Net Cash Provided By Investing Activities</u>		<u>8,355</u>	<u>8,355</u>
<u>Cash Flows (Used) Provided By Financing Activities:</u>			
Interfund Transfer	(<u>1,717</u>)	<u>1,717</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	1,580	(67,572)	(65,992)
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>43,890</u>	<u>93,387</u>	<u>137,277</u>
<u>Cash and Cash Equivalents at December 31, 2016</u>	<u>\$ 45,470</u>	<u>\$ 25,815</u>	<u>\$ 71,285</u>
<u>Supplemental Disclosures of Cash Flow Information</u>			
Cash paid during the year for:			
Income Taxes	\$1,100		
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, 2016

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, 2016

PROPERTY AND EQUIPMENT

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property at cost and depreciates it using the straight-line method over fifteen years.

NOTE 3: INVESTMENTS

Investments consist of various mortgages backed by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and the Government National Mortgage Association. The interest rates on these mortgages, which mature from 2024 to 2044, range from 3.0% to 9.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2016, was \$86,012.

Investments in Certificates of Deposit will mature through 2018. Interest rates range from .0% to 1.5%. The aggregate market value of the Certificates of Deposit was \$247,555 at December 31, 2016.

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. 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. These funds have been 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, 2016. 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, 2016

As of December 31, 2016, the tax years that remain subject to examination by taxing authorities begin with December 31, 2013 for federal tax purposes and December 31, 2012 for state tax purposes.

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 \$358,781, should be held in separate accounts and are generally not available for normal operations.

SBSA, Inc. conducted a study, which was revised by the Association's Board, and approved in October 2014 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 2016.

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 12, 2017, 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, 2016

(Unaudited)

SBSA, Inc. conducted a study, which was revised by the Association's Board, and approved in October 2014 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>
<i>Flatwork</i>		
Concrete Driving Surfaces	2017	\$ 4,062
Flagstone Tiles	2020	3,791
Concrete Patios	2015	5,150
Tile Entry	2024	6,720
<i>Landscaping and Appurtenances</i>		
Fountain	2016	3,183
Metal Gates	2031	3,886
Concrete Walls	2030	10,000
Plaza Furnishings	2025	5,000
Handrails	2030	5,036
Lighting Posts	2025	3,000
Irrigation Clock	2018	1,159
<i>Façade</i>		
Eifs Façade – Joints	2016	47,683
Eifs Façade – Repairs	2015	10,288
Eifs Façade – Fog Coat	2030	100,000
Balconies – Repaint Metal	2015	37,000
Balconies – Waterproof Deck	2015	22,000
Windows	2016	5,305
Entry Doors	2025	5,000
Service Entrances	2015	4,500
<i>Roofing</i>		
Low Sloped Roofs	2017	10,927
<i>Interior</i>		
Carpet	2018	5,305
Loggia	2015	10,000
Elevator Cabs	2020	23,881
Mailboxes	2025	6,921
Exercise Room Equipment	2019	8,695

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2016
 (Unaudited)

<u>Components</u>	<u>Estimated Year For Replacement</u>	<u>Estimated Current Replacement Costs</u>
<i>Substructure</i>		
Concrete Surfaces – Repair	2020	\$ 5,003
Garage Door – Motor	2025	1,366
Garage Door and Parts	2018	5,796
Garage Ramp Heating	2040	60,000
<i>Mechanical</i>		
Elevator Drive Systems (Spare Drive)	2015	25,000
Hot Water Boilers	2026	40,976
Boiler	2031	74,378
Cooling Towers	2025	20,000
Generator	2021	12,299
Booster Pump	2015	26,205
Make-up Air Units	2024	54,635
Hot Water Storage Tanks	2025	13,439
Expansion Tanks	2025	5,497
Circulation Pumps	2016	2,652
Transfer Switches	2023	13,048
Garage Exhaust Fans – CO2 Sensors	2015	2,776
Garage Exhaust Fans – Motors	2020	2,845
Ejection Pumps (Sump Pumps)	2014	2,000
Fountain Equipment	2021	1,829
<i>Fire and Life Safety</i>		
Fire Alarm Control Panels	2014	45,000
Fire Pump Controllers	2039	35,523
Fire Pump	2030	6,295
Control Valves	2030	23,607
Security System	2017	5,464
<u>Total:</u>		<u>\$ 834,125</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, 2016, the Association had accumulated \$358,781 in its replacement fund. The study assumes a starting Replacement Fund balance of \$451,614 for 2017. The recommended annual contribution to the replacement fund for 2017 is \$60,100. The amount of assessments designated to fund the replacement fund for 2017 is \$65,000.