

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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July 18, 2019

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, 2018, 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, 2018, 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.

EFS & Associates, CPAs, PC

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 659	\$ 97,246	\$ 97,905
Certificates of Deposit		170,000	170,000
Mortgage Backed Securities		73,328	73,328
Accrued Interest		1,459	1,459
Assessments Receivable - Homeowners	945		945
Prepaid Insurance	5,076		5,076
Prepaid Income Tax	431		431
Other Prepaid Expense	1,039		1,039
Machinery and Equipment	9,326		
Less Accumulated Depreciation	(2,621)		
Due From Replacement Fund	27,549		27,549
<u>Total Assets</u>	<u>\$ 42,404</u>	<u>\$ 342,033</u>	<u>\$ 384,437</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 29,030	\$	\$ 29,030
Assessments Received in Advance	27,041		27,041
Payroll Taxes Payable	3,368		3,368
Other Liabilities	1,200		1,200
Due To Operating Fund		27,549	27,549
<u>Total Liabilities</u>	<u>60,639</u>	<u>27,549</u>	<u>88,188</u>
 <u>Fund Balances (Deficit)</u>	 (<u>18,235</u>)	 <u>314,484</u>	 <u>296,249</u>
 <u>Total Liabilities and Fund Balances</u>	 <u>\$ 42,404</u>	 <u>\$ 342,033</u>	 <u>\$ 384,437</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, 2018

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 458,667	\$ 74,600	\$ 533,267
Late Fees and Other Income	5,826		5,826
Interest and Dividend Income		6,319	6,319
Realized Loss on Investments		(17)	(17)
<u>Total Revenues</u>	464,493	80,902	545,395
<u>EXPENSES:</u>			
Repairs and Maintenance:			
Heating and Air Conditioning Repairs	72,570		72,570
Building Repairs and Maintenance	25,890		25,890
Janitorial Expenses	25,642		25,642
Grounds Maintenance	18,418		18,418
Security and Fire System	13,637		13,637
Elevator Repair and Maintenance	9,136		9,136
Trash and Snow Removal	6,156		6,156
Garage Maintenance	5,071		5,071
Plumbing and Booster Pumps	2,828		2,828
Electrical Repairs and Supplies	1,675		1,675
Fountain Maintenance	1,505		1,505
Exercise Equipment	755		755
Boiler Replacement		66,553	66,553
Major HVAC Equipment Replacement		29,098	29,098
Security Cameras		4,529	4,529
Utilities:			
Gas and Electric	78,900		78,900
Water and Sewer	23,756		23,756
Payroll and Related Expenses	125,985		125,985
Insurance	29,450		29,450
Office and Administration	9,656		9,656
Management Fees	8,667		8,667
Professional Services	5,997		5,997
Social Events	4,067		4,067
Depreciation	622		622
Income Tax	523		523
<u>Total Expenses</u>	470,906	100,180	571,086
<u>Revenues (Under) Expenses</u>	(6,413)	(19,278)	(25,691)
Fund Balances, December 31, 2017	17,670	304,270	321,940
Interfund Transfer	(29,492)	29,492	_____
<u>Fund Balances (Deficit), December 31, 2018</u>	(\$ 18,235)	\$ 314,484	\$ 296,249

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
<u>Revenues (Under) Expenses</u>	(\$ 6,413)	(\$ 19,278)	(\$ 25,691)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	622		622
Realized Loss on Investments		17	17
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Homeowner	1,351		1,351
Increase in Accrued Interest		(455)	(455)
Decrease in Prepaid Insurance	515		515
Decrease in Prepaid Income Tax	523		523
Decrease in Other Prepaid Expenses	624		624
Increase in Accounts Payable	13,174		13,174
Increase in Assessments Received in Advance	15,104		15,104
Increase in Payroll Taxes Payable	382		382
Decrease in Other Liabilities	(400)		(400)
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>25,482</u>	<u>(19,716)</u>	<u>5,766</u>
<u>Cash Flows Provided By Investing Activities:</u>			
Decrease in Certificates of Deposit (Net)		5,036	5,036
Decrease in Mortgage Backed Securities		2,054	2,054
<u>Net Cash Provided By Investing Activities</u>		<u>7,090</u>	<u>7,090</u>
<u>Cash Flows (Used) Provided By Financing Activities:</u>			
Interfund Transfer	(29,492)	29,492	
Change in Interfund Liability	(27,549)	27,549	
<u>Net Cash (Used) Provided By Financing Activities</u>	<u>(57,041)</u>	<u>57,041</u>	
Net (Decrease) Increase in Cash and Cash Equivalents	(31,559)	44,415	12,856
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>32,218</u>	<u>52,831</u>	<u>85,049</u>
<u>Cash and Cash Equivalents at December 31, 2018</u>	<u>\$ 659</u>	<u>\$ 97,246</u>	<u>\$ 97,905</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, 2018

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, 2018

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 2040 to 2044, range from 3.0% to 5.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2018, was \$77,691.

Investments in Certificates of Deposit will mature through 2020. Interest rates range from 1.60% to 2.75%. The aggregate market value of the Certificates of Deposit was \$169,053 at December 31, 2018.

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, 2018. 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, 2018

As of December 31, 2018, the tax years that remain subject to examination by taxing authorities begin with December 31, 2015 for federal tax purposes and December 31, 2014 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 \$342,033, should be held in separate accounts and are generally not available for normal operations.

Aspen Reserve Specialties conducted a study in July 2018 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 2018.

NOTE 9: INTERFUND TRANSFER

During September 2018, the Association's Board voted to reclass the Noncapital Contingency Fund bank account held at Union Bank from the Operating Fund to the Replacement Fund. This is shown as an Interfund Transfer on the Statement of Revenues and Expenses and Changes in Fund Balances.

NOTE 10: SUBSEQUENT EVENTS

As of the report date, the Association has received notice from Pella that they will replace defective windows and doors with an insured value of approximately \$2,000,000. However, the Association will be responsible for the storage and installation costs of this product.

The Association's Board is planning on funding this installation project via a special assessment. The total special assessment amount will be determined as part of the 2020 budget process, in accordance with Section 7.7 of the Association's Declarations. Once the total special assessment amount is determined, each owner's responsibility will be based upon their allocated interest as stated in Exhibit B of the Declarations.

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 18, 2019, 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, 2018
 (Unaudited)

Aspen Reserve Specialties conducted a study in July 2018 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.

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>
EPDM Flat Roof - Replace	2023	\$ 192,500
Tile Roof - Replace	2047	193,875
Stucco Surfaces - Maintenance/Coating	2019	30,000
Stucco Surfaces - Major Repaint/Coating (2)	2029	267,163
Stucco Surfaces - Major Repaint/Coating (2)	2034	179,288
Concrete - Partial Replace	2018	5,688
Decorative Wood Entry Doors - Replace	2035	27,000
Metal Garage Door - Replace	2041	28,000
Windows - Replace	2031	592,500
Garage Door Openers - Replace	2025	6,750
Pedestrian Door Openers - Replace	2018	3,900
Painted Concrete - Repair/Recoat	2025	13,075
Flagstone Pathways - Major Repairs	2020	4,750
Balconies - Recoat	2025	24,363
Domestic Heat Boilers - Replace	2037	80,000
Hot Water Boilers - Replace (Bldg 1)	2019	95,000
Hot Water Boilers - Replace (Bldg 2)	2018	75,000
Hot Water Storage Tanks - Replace (1)	2032	33,000
Hot Water Storage Tanks - Replace (2)	2027	24,750
Elevator - Rebuild/Upgrade	2024	345,000
Elevator Cab - Remodel	2035	60,000
Emergency Generator - Replace	2034	68,750
Cooling Towers - Replace	2027	117,500
Ventilation Fans - Partial Replacement	2022	19,000
Make-Up Air Units - Replace	2026	54,000
Snow Melt Controls/System - Replace	2027	18,000
Cummins Onan Transfer Switches - Replace	2029	22,000
Miscellaneous Equipment - Replace	2020	13,500
Space Heaters - Partial Replace	2019	5,500
Water Delivery System - Replace	2034	55,000
Garage CO System - Replace	2021	7,750
Mailboxes - Replace (Bldg 1)	2045	3,250
Mailboxes - Replace (Bldg 2)	2027	3,250
Fire Command Center - Replace	2036	34,000

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2018
 (Unaudited)

<u>Components</u>	<u>Estimated Year For Replacement</u>	<u>Estimated Current Replacement Costs</u>
Fire System Pump Controllers - Replace	2027	\$ 44,000
Fire Alarm Control Panels - Replace	2029	6,500
Video Security System - Replace	2022	9,250
Intercom/Keypad - Replace	2024	4,600
FOB Access System	2025	30,750
Defibrillators - Replace	2024	3,300
Metal Fencing/Rail - Major Repairs/Replace	2026	27,300
Concrete Balusters/Wall - Major Repairs	2027	32,500
Cardio Equipment - Replace	2024	19,000
Strength Equipment - Replace	2032	7,375
Party Room and Office - Remodel	2032	21,250
Carpeting - Replace	2025	37,050
Tile - Replace	2030	13,875
Rubber Flooring - Replace	2030	1,875
Exterior Lights - Replace	2036	32,188
Pole Lights - Replace	2046	13,650
Decorative Lighting - Replace	2034	10,500
Windows - Replace	2031	592,500
Elevator - Rebuild/Upgrade	2024	345,000
Stucco Surfaces - Major Repaint/Coat	2029	267,163
EPDM Flat Roof - Replace	2023	192,500
<u>Total:</u>		<u>\$ 4,415,228</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, 2018, the Association had accumulated \$342,033 in its replacement fund.

The study assumes a starting Replacement Fund balance of \$499,626 for 2019. The recommended annual contribution to the replacement fund for 2019 is \$234,398 per this study.

The Association's Board and manager has also prepared a summary reserve study. This study assumes a starting Replacement Fund balance of \$351,392 for 2019, and a recommended annual contribution of \$226,800 for 2019.

The amount of assessments designated to fund the Replacement Fund, according to the Association's budget, for 2019 is \$125,000.