

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

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EFS & ASSOCIATES, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

6698 SOUTH IRIS STREET, #621908 • LITTLETON, COLORADO 80123-3180
PHONE (303) 798-6406

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
COLORADO SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
COMMUNITY ASSOCIATIONS INSTITUTE

July 21, 2020

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, 2019, 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, 2019, 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 ten and eleven 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.

E. J. Aswani, CPA, PC

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET
DECEMBER 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 9,123	\$ 66,560	\$ 75,683
Certificates of Deposit		140,000	140,000
Mortgage Backed Securities		70,789	70,789
Accrued Interest		1,327	1,327
Assessments Receivable - Homeowners	916		916
Prepaid Insurance	5,172		5,172
Prepaid Income Tax	204		204
Machinery and Equipment	9,326		
Less Accumulated Depreciation	(3,243)		
	6,083		6,083
Due From Operating Fund		29	29
Due To Replacement Fund	(29)		(29)
<u>Total Assets</u>	<u>\$ 21,469</u>	<u>\$ 278,705</u>	<u>\$ 300,174</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 21,166	\$ 22,710	\$ 43,876
Assessments Received in Advance	16,923		16,923
Payroll Taxes Payable	4,070		4,070
Other Liabilities	1,200		1,200
Deferred Special Assessment		55,766	55,766
<u>Total Liabilities</u>	<u>43,359</u>	<u>78,476</u>	<u>121,835</u>
<u>Fund Balances (Deficit)</u>	<u>(21,890)</u>	<u>200,229</u>	<u>178,339</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 21,469</u>	<u>\$ 278,705</u>	<u>\$ 300,174</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, 2019

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 448,264	\$ 125,000	\$ 573,264
Late Fees and Other Income	5,800		5,800
Interest and Dividend Income		7,165	7,165
Realized Gain on Investments		2	2
<u>Total Revenues</u>	454,064	132,167	586,231
<u>EXPENSES:</u>			
Repairs and Maintenance:			
HVAC and Plumbing Repairs	56,500		56,500
Janitorial Expenses	22,891		22,891
Building Repairs and Maintenance	18,436		18,436
Grounds Maintenance	16,098		16,098
Trash and Snow Removal	10,448		10,448
Security and Fire System	9,783	9,000	18,783
Elevator Repair and Maintenance	8,850		8,850
Electrical Repairs and Supplies	4,706		4,706
Garage Maintenance	2,950		2,950
Exercise Equipment	1,418		1,418
Window and Door Installation		157,022	157,022
Major HVAC and Plumbing Repairs		55,838	55,838
Parking Lot Paving		20,000	20,000
Door Hinges		4,562	4,562
Utilities:			
Gas and Electric	84,830		84,830
Water and Sewer	24,528		24,528
Telephone and Internet	5,223		5,223
Payroll and Related Expenses	131,017		131,017
Insurance	28,786		28,786
Management Fees	14,787		14,787
Professional Services	6,158		6,158
Office and Administration	5,170		5,170
Social Events	3,791		3,791
Income Tax	727		727
Depreciation	622		622
<u>Total Expenses</u>	457,719	246,422	704,141
<u>Revenues (Under) Expenses</u>	(3,655)	(114,255)	(117,910)
Fund Balances (Deficit), December 31, 2018	(18,235)	314,484	296,249
<u>Fund Balances (Deficit), December 31, 2019</u>	(\$ 21,890)	\$ 200,229	\$ 178,339

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows From Operating Activities:</u>			
<u>Revenues (Under) Expenses</u>	(\$ 3,655)	(\$ 114,255)	(\$ 117,910)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	622		622
Realized Gain on Investments		(2)	(2)
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Homeowner	29		29
Decrease in Accrued Interest		132	132
Increase in Prepaid Insurance	(96)		(96)
Decrease in Prepaid Income Tax	227		227
Decrease in Other Prepaid Expenses	1,039		1,039
(Decrease) Increase in Accounts Payable	(7,864)	22,710	14,846
Decrease in Assessments Received in Advance	(10,118)		(10,118)
Increase in Payroll Taxes Payable	702		702
Increase in Deferred Special Assessment		<u>55,766</u>	<u>55,766</u>
<u>Net Cash (Used) By Operating Activities</u>	<u>(19,114)</u>	<u>(35,649)</u>	<u>(54,763)</u>
<u>Cash Flows Provided By Investing Activities:</u>			
Decrease in Certificates of Deposit (Net)		30,000	30,000
Decrease in Mortgage Backed Securities		<u>2,541</u>	<u>2,541</u>
<u>Net Cash Provided By Investing Activities</u>		<u>32,541</u>	<u>32,541</u>
<u>Cash Flows Provided (Used) By Financing Activities:</u>			
Change in Interfund Liability	<u>27,578</u>	<u>(27,578)</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	8,464	(30,686)	(22,222)
<u>Cash and Cash Equivalents at Beginning of Year</u>	<u>659</u>	<u>97,246</u>	<u>97,905</u>
<u>Cash and Cash Equivalents at December 31, 2019</u>	<u>\$ 9,123</u>	<u>\$ 66,560</u>	<u>\$ 75,683</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	\$500
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, 2019

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.

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.

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.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 3: FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance, ASC 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). ASC 606 requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an Association expects to be entitled in exchange for those goods or services.

The Association adopted this new guidance effective for annual reporting periods beginning January 1, 2019.

The Association has adopted the requirements of the new guidance in its Operating Fund. Assessment revenues are recognized as the related performance obligations are satisfied and transaction amounts expected to be collected. Net membership revenues recognized on the Statement of Revenues and Expenses is adjusted to the amount expected to be collected from homeowners.

Assessments receivable as of December 31, 2019 of \$916, as shown on the Balance Sheet, is expected to be collected. There has been no change to beginning fund balance as a result of this accounting guidance.

The Association has determined that the performance obligations as defined in ASC 606 do not describe the activity of the Replacement Fund. Therefore, the guidance described in ASC 606 has not been applied to the Replacement Fund.

ASC 606 has been applied to deferred special assessments and will be applied to deferred insurance proceeds, should this event occur in the future.

NOTE 4: 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, 2019, was \$77,108.

Investments in Certificates of Deposit will mature through 2022. Interest rates range from 1.85% to 3.0%. The aggregate market value of the Certificates of Deposit was \$140,085 at December 31, 2019.

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

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 5: 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. The Association's policy is to enforce collection of assessments by retaining legal counsel and placing liens on the properties of delinquent members.

NOTE 6: 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 7: INCOME TAXES:

The Association qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2019. 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 4.5% by the State of Colorado.

As of December 31, 2019, the tax years that remain subject to examination by taxing authorities begin with December 31, 2016 for federal tax purposes and December 31, 2015 for state tax purposes.

NOTE 8: 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 \$278,676, should be held in separate accounts and are generally not available for normal operations.

McCaffery Reserve Consulting conducted a study in June 2020 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.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

NOTE 9: 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 2019.

NOTE 10: DEFERRED SPECIAL ASSESSMENT

The Association passed a special assessment effective January 1, 2020, as part of the 2020 budget, in accordance with Section 7.7 of the Association's Declarations. The special assessment totals \$360,000 and each owner's responsibility is based upon their allocated interest as stated in Exhibit B of the Declarations. The purpose of the special assessment is to fund the initial storage and installation of windows and doors received from Pella under warranty. Homeowners had the option to pay the special assessment in full by January 2, 2020 or in six monthly installments from January through June 2020.

The window and door installation process began during 2019 and will be substantially complete by July 2020. As shown on the December 31, 2019 Statement of Revenues and Expenses, \$157,022 was spent on the installation project during 2019. The December 31, 2019 Balance Sheet includes \$55,766 as Deferred Special Assessment. This liability balance will be recognized as Special Assessment income, along with the remaining window and door installation expenses, on the December 31, 2020 Statement of Revenues and Expenses.

NOTE 11: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 21, 2020, the date the financial statements were available to be issued.

The World Health Organization declared the novel coronavirus (Covid-19) outbreak a pandemic in March 2020. As of the date the financial statements were available to be issued, the uncertainty of the impact that Covid-19 may have on the Association's financial position, operations and cash flows was not readily determinable. The Association does have the ability to retain legal counsel and place liens on delinquent homeowner accounts. These financial statements do not include any adjustments related to this uncertainty.

SUPPLEMENTARY INFORMATION
(Unaudited)

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2019
 (Unaudited)

McCaffery Reserve Consulting conducted a study in June 2020 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>Remaining Useful Life</u>	<u>Estimated Current Replacement Costs</u>
Roofing:		
Flat EPDM	6	\$ 196,000
Tile Roofing	27	160,000
Exterior:		
Stucco Seal/Major Repairs	12	300,000
Stucco Minor Repairs	3	20,000
Metal Balcony Paint	5	40,000
Concrete Replacements	2	25,000
Windows (Partial Replace)	10	60,000
Crank Windows	4	400,000
Balcony Deck Resurface	5	30,000
Flagstone Repairs	2	5,000
Metal Railing Repairs	5	8,000
Balusters/Wall Repairs	5	16,000
Mechanical:		
Garage Door	17	27,000
Garage Door Motor	7	7,000
Stanley Door Opener B1	13	2,400
Stanley Door Opener B2	1	2,400
HVAC Boilers	17	100,000
Tankless Water Heaters (Bldg 2)	10	56,000
Lochinvar Boilers (Bldg 1)	0	90,000
Storage Tanks (Bldg 1)	11	36,000
Storage Tanks (Bldg 2)	6	27,000
Elevator Modernization (Bldg 1)	9	200,000
Elevator Modernization (Bldg 2)	9	120,000
Elevator Cab Remodel	17	40,000
Generator Rebuild	13	60,000
Cooling Tower	15	125,000
Exhaust Fans (Partial Replace)	1	3,600
Make Up Air Units	5	50,000
Snow Melt System	6	18,000
Garage/Stair Space Heaters (Partial)	0	4,500
Electrical Contingency	2	15,000

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2019
 (Unaudited)

<u>Components</u>	<u>Remaining Useful Life</u>	<u>Estimated Current Replacement Costs</u>
Domestic Pumpset	13	\$ 60,000
Fire Pump Controls	20	25,000
Fire Alarm Panel	17	45,000
Glycol Pump	13	17,000
Plumbing/Piping	4	25,000
Miscellaneous Repair/Replace	1	10,000
Common Areas:		
Gym Strength Equipment	2	8,000
Gym Cardio Equipment	3	16,000
Gym Rubber Flooring	13	4,000
Party Room/Office	11	24,000
Hall Carpet	2	39,900
Floor Tile	10	15,000
Miscellaneous:		
Mailboxes Bldg 1	23	3,500
Mailboxes Bldg 2	3	3,500
Surveillance	2	8,000
Entry Intercom	1	6,600
FOB Access System	3	15,000
Defibrillators	3	3,200
Lighting Upgrades	18	50,000
Fountain	15	20,000
Electric Vehicle Charger	13	16,000
Total:		\$ 2,658,600

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, 2019, the Association had accumulated \$278,676 in its Replacement Fund, and has designated \$135,000 to contribute to the Replacement Fund for 2020.

The study assumes a Replacement Fund balance of \$402,000 and the percent funded of 25.3% as of December 31, 2020. The recommended annual contribution to the Replacement Fund for 2021 is \$186,000 per this study.

Funding requirements are based on an inflation rate of 3.0% and the Association will earn 1.5% on its investments before taxes.

Please see the complete study for further details.

No. 25 Downing Condominium Association, Inc.
Closing Entry
12/31/2019

Description	Unadjusted TB		Adjusted TB		Closing Entry	
	DR	CR	DR	CR	DR	CR
11150 Market Value		3,415.61		6,404.87		2,989.26
12100 Accounts Receivable	756.00		916.00		160.00	
13100 Prepaid Insurance	5,512.00		5,172.00			340.00
13200 Prepaid Income Tax	931.00		204.00			727.00
13300 Other Prepaid Expenses	1,039.00		0.00			1,039.00
19500 Accumulated Depreciation		2,621.00		3,243.00		622.00
20000 Accounts Payable		18,862.37		21,161.63		2,299.26
20200 A/P - Reserve		0.00		22,709.85		22,709.85
21000 Payroll Liabilities		4,040.22		4,069.47		29.25
22100 Prepaid Assessments		16,662.67		16,922.67		260.00
32100 Reserve Fund Balance		225,926.10		200,226.99	25,699.11	
31100 Operating Fund Balance	16,727.05		21,883.56		5,156.51	
		<u> </u>		<u> </u>	<u> </u>	<u> </u>
		TO CLOSE 2019			<u>31,015.62</u>	<u>31,015.62</u>

Reversing Entries

20000 Accounts Payable					2,299.26	
66100 Fitness Machines						780.00
50300 Water						219.78
50400 Sewer						348.15
50200 Natural Gas						2,094.86
50400 Sewer					<u>1,143.53</u>	
To Reverse Entries to Accounts Payable - Operating					<u>3,442.79</u>	<u>3,442.79</u>

20200 A/P - Reserve					22,709.85	
99110 Reserve Expense - Windows						22,709.85
To Reverse Entries to Accounts Payable - Reserve					<u>22,709.85</u>	<u>22,709.85</u>

21000 Payroll Liabilities					29.25	
90200 Payroll Taxes						29.25
To Reverse Accrued 4th Quarter Payroll Tax					<u>29.25</u>	<u>29.25</u>