

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2021

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1 - 3
<u>Financial Statements</u>	
Balance Sheet	4
Statement of Revenues and Expenses And Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 10
<u>Supplementary Information</u>	
Supplementary Information on Future Major Repairs & Replacements (Unaudited)	11 - 12

**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

April 20, 2022

**INDEPENDENT AUDITOR'S REPORT**

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

*Opinion*

We have audited the accompanying financial statements of No. 25 Downing Condominium Association, Inc., which comprise the balance sheet as of December 31, 2021, 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.

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, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of No. 25 Downing Condominium Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Emphasis of Matter*

As discussed in Note 10 to the financial statements, two special assessments were approved by the Association as part of the 2022 budget year.

*Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about No. 25 Downing Condominium Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 No. 25 Downing Condominium Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about No. 25 Downing Condominium Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that supplementary information about future major repairs and replacements on pages eleven and twelve be presented to supplement the basic financial statements. Such information is the responsibility of management and,

although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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. Associates, CPA, P.C.*

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET  
DECEMBER 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 10,246	\$ 332,074	\$ 342,320
Mortgage Backed Securities		30,879	30,879
Accrued Interest		105	105
Assessments Receivable - Homeowners	544		544
Prepaid Insurance	5,598		5,598
Prepaid Income Tax	704		704
Other Prepaid Expenses	1,297		1,297
Machinery and Equipment	9,326		
Less Accumulated Depreciation	( 4,487 )		
	4,839		4,839
Due From Operating Fund		53,616	53,616
<u>Total Assets</u>	<u>\$ 23,228</u>	<u>\$ 416,674</u>	<u>\$ 439,902</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 25,226	\$	\$ 25,226
Assessments Received in Advance	3,336		3,336
Payroll Taxes Payable	5,499		5,499
Due to Replacement Fund	53,616		53,616
<u>Total Liabilities</u>	87,677		87,677
 <u>Fund Balances (Deficit)</u>	 ( 64,449 )	 416,674	 352,225
 <u>Total Liabilities and Fund Balances</u>	 <u>\$ 23,228</u>	 <u>\$ 416,674</u>	 <u>\$ 439,902</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, 2021

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Member Assessments	\$ 471,088	\$ 170,000	\$ 641,088
Insurance Proceeds	13,752		13,752
Late Fees and Other Income	6,375		6,375
Interest and Dividend Income		1,837	1,837
Realized Loss on Investments		( 34 )	( 34 )
<u>Total Revenues</u>	491,215	171,803	663,018
<u>EXPENSES:</u>			
Repairs and Maintenance:			
HVAC and Plumbing Repairs	61,585		61,585
Janitorial Expenses	26,142		26,142
Grounds Maintenance	19,357	5,128	24,485
Security and Fire System	17,502		17,502
Building Repairs and Maintenance	16,570		16,570
Insurance Related Repairs	14,309		14,309
Elevator Repair and Maintenance	13,840		13,840
Trash and Snow Removal	11,764		11,764
Electrical Repairs and Supplies	5,569		5,569
Garage Maintenance	3,010		3,010
Fitness Room Expenses	1,246		1,246
Fire Pump		14,386	14,386
Elevator Modernization and Repairs		11,500	11,500
Garage Improvements		5,259	5,259
Utilities:			
Gas and Electric	99,750		99,750
Water and Sewer	27,373		27,373
Telephone and Internet	5,436		5,436
Payroll and Related Expenses	138,352		138,352
Insurance	29,784		29,784
Management Fees	26,298		26,298
Office and Administration	8,167		8,167
Professional Services	6,910		6,910
Depreciation	622		622
<u>Total Expenses</u>	533,586	36,273	569,859
<u>Revenues (Under) Over Expenses</u>	( 42,371 )	135,530	93,159
Fund Balances (Deficit), December 31, 2020	( 31,796 )	290,862	259,066
Interfund Transfer	9,718	( 9,718 )	
<u>Fund Balances (Deficit), December 31, 2021</u>	(\$ 64,449 )	\$ 416,674	\$ 352,225

See Accompanying Notes to Financial Statements

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	Operating Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Revenues (Under) Over Expenses	(\$ 42,371 )	\$ 135,530	\$ 93,159
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	622		622
Realized Loss on Investments		34	34
Changes in Assets and Liabilities:			
Decrease in Accrued Interest		212	212
Increase in Prepaid Insurance	( 484 )		( 484 )
Decrease in Other Prepaid Expenses	1,960		1,960
Decrease in Accounts Payable	( 4,884 )	( 15,535 )	( 20,419 )
Decrease in Assessments Received in Advance	( 13,692 )		( 13,692 )
Decrease in Payroll Taxes Payable	( 35 )		( 35 )
Decrease in Other Liabilities	( 1,200 )		( 1,200 )
<u>Net Cash (Used) Provided By Operating Activities</u>	( 60,084 )	120,241	60,157
<u>Cash Flows Provided By Investing Activities:</u>			
Decrease in Certificates of Deposit		100,000	100,000
Decrease in Mortgage Backed Securities (Net)		17,607	17,607
<u>Net Cash Provided By Investing Activities</u>		117,607	117,607
<u>Cash Flows Provided (Used) By Financing Activities:</u>			
Change in Interfund Liability	43,898	( 43,898 )	
Interfund Transfer	9,718	( 9,718 )	
<u>Net Cash Provided (Used) By Financing Activities</u>	53,616	( 53,616 )	
Net (Decrease) Increase in Cash and Cash Equivalents	( 6,468 )	184,232	177,764
Cash and Cash Equivalents at Beginning of Year	16,714	147,842	164,556
Cash and Cash Equivalents at December 31, 2021	\$ 10,246	\$ 332,074	\$ 342,320

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, 2021

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, 2021

REVENUE RECOGNITION

Accounting Standards Codification (ASC) 606 requires recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The Association has adopted ASC 606 in its Operating Fund. Performance is deemed to be completed based on the annual Operating Fund budget.

Membership revenues recognized on the Statement of Revenues and Expenses may be adjusted to the amount expected to be collected. Assessment Receivables on the Balance Sheet may be reduced by an amount considered to be uncollectible.

The Association has determined that ASC 606 does not apply to the activity of the Replacement Fund. However ASC 606 will be applied to deferred special assessments and deferred insurance proceeds, if applicable.

NOTE 3: COVID-19

The World Health Organization has declared Covid-19 a Public Health Emergency of International Concern and has characterized Covid-19 as a pandemic. 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.

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. 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 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.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

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, 2021. 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, 2021, the tax years that remain subject to examination by taxing authorities begin with December 31, 2018 for federal tax purposes and December 31, 2017 for state tax purposes.

NOTE 7: INVESTMENTS

Investments consist of various mortgages backed by the Federal National Mortgage Association and Freddie Mac. The interest rates on these mortgages, which mature from 2040 to 2042, range from 3.5% to 5.0%. Interim market values fluctuate with prevailing interest rates. The market value for these securities at December 31, 2021, was \$33,196.

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

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 \$363,058, should be held in separate accounts and are generally not available for normal operations.

McCaffery Reserve Consulting conducted a study in June 2020 and updated in November 2021, 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 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 2021.

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021

NOTE 10: SPECIAL ASSESSMENTS

The Association passed two special assessments effective January 1, 2022 as part of the 2022 budget, in accordance with Section 7.7 of the Association's Declarations. Each owner's responsibility for both special assessments is based upon their allocated interest as stated in Exhibit B of the Declarations.

The first special assessment totaled \$108,000 and was due on January 15, 2022. Approximately \$58,000 is to fund a security upgrade project, and the remaining \$50,000 is for a general increase of the Replacement Fund.

The second special assessment totaled \$622,000 and was due on February 28, 2022. The purpose of this special assessment is to fund an elevator modernization project in both buildings. There is an optional five month installation plan for the second special assessment.

NOTE 11: INTERFUND TRANSFER

During November 2021, the Association's Board approved a permanent transfer from the Replacement Fund to the Operating Fund of \$9,718.

NOTE 12: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 20, 2022, 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, 2021

(Unaudited)

McCaffery Reserve Consulting conducted a study in June 2020 and updated in November 2021, 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>
<b>Roofing:</b>		
Flat EPDM	2027	\$ 196,000
Tile Roofing	2048	160,000
<b>Exterior:</b>		
Stucco Seal/Major Repairs	2033	300,000
Stucco Minor Repairs	2024	20,000
Metal Balcony Paint	2026	40,000
Concrete Replacements	2023	25,000
Windows (Partial Replace)	2031	60,000
Crank Windows	2021	40,000
Balcony Deck Resurface	2026	30,000
Flagstone Repairs	2023	5,000
Metal Railing Repairs	2026	8,000
Balusters/Wall Repairs	2026	16,000
<b>Mechanical:</b>		
Garage Door	2038	27,000
Garage Door Motor	2028	7,000
Stanley Door Opener B1	2034	2,400
Stanley Door Opener B2	2022	2,400
HVAC Boilers	2038	100,000
Tankless Water Heaters (Bldg 2)	2031	56,000
Lochinvar Boilers (Bldg 1)	2021	90,000
Storage Tanks (Bldg 1)	2032	36,000
Storage Tanks (Bldg 2)	2027	27,000
Elevator Modernization (Bldg 1)	2051	400,000
Elevator Modernization (Bldg 2)	2051	140,000
Elevator Cab Remodel	2038	40,000
Generator Rebuild	2034	60,000
Cooling Tower	2036	125,000
Exhaust Fans (Partial Replace)	2022	3,600
Make Up Air Units	2026	50,000
Snow Melt System	2027	18,000
Garage/Stair Space Heaters (Partial)	2021	4,500
Electrical Contingency	2023	15,000

NO. 25 DOWNING CONDOMINIUM ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2021  
 (Unaudited)

<u>Components</u>	<u>Estimated Year For Replacement</u>	<u>Estimated Current Replacement Costs</u>
Domestic Pumpset	2034	\$ 60,000
Fire Pump Controls	2041	25,000
Fire Alarm Panel	2038	45,000
Glycol Pump	2034	17,000
Plumbing/Piping	2025	25,000
Miscellaneous Repair/Replace	2022	10,000
<b>Common Areas:</b>		
Gym Strength Equipment	2023	8,000
Gym Cardio Equipment	2024	16,000
Gym Rubber Flooring	2034	4,000
Party Room/Office	2032	24,000
Hall Carpet	2023	39,900
Floor Tile	2031	15,000
<b>Miscellaneous:</b>		
Mailboxes Bldg 1	2044	3,500
Mailboxes Bldg 2	2024	3,500
Surveillance	2023	8,000
Entry Intercom	2022	6,600
FOB Access System	2024	15,000
Defibrillators	2024	3,200
Lighting Upgrades	2039	50,000
Fountain	2036	20,000
Electric Vehicle Charger	2034	16,000
<u>Total:</u>		<u>\$ 2,518,600</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, 2021, the Association had accumulated \$363,058 in its Replacement Fund, and has designated \$196,000 to contribute to the Replacement Fund for 2022.

The study assumes a Replacement Fund balance of \$481,530, which represents 44.0% funded, as of December 31, 2021. The recommended annual contribution to the Replacement Fund for 2022 is \$173,040 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.