

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2010

PARKWAY TOWERS CONDOMINIUM ASSOCIATION

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1
<u>Financial Statements</u>	
Balance Sheet	2
Statement of Revenues and Expenses And Changes in Fund Balances	3 - 4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 8
<u>Supplementary Information</u>	
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	9

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May 25, 2011

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Parkway Towers Condominium Association

I audited the accompanying balance sheet of Parkway Towers Condominium Association as of December 31, 2010 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the management of Parkway Towers Condominium Association. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Parkway Towers Condominium Association as of December 31, 2010, 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.

Accounting principles generally accepted in the United States of America require that supplementary information about future major repairs and replacements on page nine 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 our inquiries, the basic financial statements, and other knowledge we 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. Sassolino CPA, P.C.

PARKWAY TOWERS CONDOMINIUM ASSOCIATION

BALANCE SHEET DECEMBER 31, 2010

	<u>Operating Fund</u>	<u>Special Assessment Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 6,958	\$ 427	\$ 121,815	\$ 129,200
Accounts Receivable - Net of Allowance For Doubtful Accounts of \$40,000	6,138	11,968		18,106
Accounts Receivable - Other	1,038			1,038
Due From Special Assessment Fund	3,320			3,320
Due To Operating Fund		(3,320)		(3,320)
Prepaid Expenses	4,027			4,027
Prepaid Income Tax	816			816
<u>Total Assets</u>	<u>\$ 22,297</u>	<u>\$ 9,075</u>	<u>\$ 121,815</u>	<u>\$ 153,187</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 82,903	\$	\$	\$ 82,903
Assessments Received in Advance	10,125			10,125
Payroll and Expenses Payable	1,275			1,275
Real Estate Taxes Payable	390			390
Interest Payable		96		96
Security Deposit	600			600
Note Payable		27,406		27,406
<u>Total Liabilities</u>	95,293	27,502		122,795
<u>Fund Balances</u>				
Fund Balances (Deficit)	(72,996)	(18,427)	121,815	30,392
<u>Total Liabilities and Fund Balances</u>	<u>\$ 22,297</u>	<u>\$ 9,075</u>	<u>\$ 121,815</u>	<u>\$ 153,187</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 DECEMBER 31, 2010

	Operating Fund	Special Assessment Fund	Replacement Fund	Total
<u>REVENUES:</u>				
Scheduled Maintenance Fees - Homeowners	\$ 354,619	\$	\$ 30,000	\$ 384,619
Parking Income	2,093			2,093
Unit Rental	2,400			2,400
Laundry Income	8,118			8,118
Interest Income			791	791
Late Fees and Other Income	7,687	688		8,375
Storage Income	1,090			1,090
<u>Total Revenues</u>	<u>376,007</u>	<u>688</u>	<u>30,791</u>	<u>407,486</u>
<u>EXPENSES:</u>				
Repairs and Maintenance:				
Other Repairs and Maintenance	90,718			90,718
HVAC Repairs and Maintenance	52,922		10,064	62,986
Plumbing Repairs	25,591			25,591
Snow and Trash Removal	13,486			13,486
Painting	12,863			12,863
Janitorial	10,890			10,890
Building Repairs and Maintenance	8,911			8,911
Capital Improvement	8,582			8,582
Elevator Repair and Maintenance	8,215			8,215
Pool and Sauna Repairs and Maintenance	7,154			7,154
Electrical Repairs and Supplies	3,802			3,802
Grounds Maintenance	1,364			1,364
Garage Maintenance	894			894
Utilities:				
Gas and Electric	78,293			78,293
Water and Sewer	22,247			22,247
Bad Debt	28,885			28,885
Insurance	25,768			25,768
Salaries and Related Expenses	24,771			24,771
Management Fees	22,800			22,800
Legal, Accounting and Professional	8,385			8,385
Office and Administrative Expenses	4,708			4,708
Telephone	3,467			3,467
Income Tax	1,086			1,086
Property Tax	390			390
Fire Alarm Monitoring	240			240
Interest Expense		5,964		5,964
<u>Total Expenses</u>	<u>466,432</u>	<u>5,964</u>	<u>10,064</u>	<u>482,460</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 DECEMBER 31, 2010

	<u>Operating Fund</u>	<u>Special Assessment Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Revenues Over (Under) Expenses</u>	(90,425)	(5,276)	20,727	(74,974)
Interfund Transfers	(1,469)		1,469	
<u>Fund Balances, December 31, 2009</u>	<u>18,898</u>	(<u>13,151</u>)	<u>99,619</u>	<u>105,366</u>
<u>Fund Balances (Deficit), December 31, 2010</u>	(\$ <u>72,996</u>)	(\$ <u>18,427</u>)	\$ <u>121,815</u>	\$ <u>30,392</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
 DECEMBER 31, 2010

	Operating Fund	Special Assessment Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Revenues Over (Under) Expenses	(\$ 90,425)	(\$ 5,276)	\$ 20,727	(\$ 74,974)
Adjustments to Reconcile Net Income to Net Provided By Operating Activities:				
Decrease in Accounts Receivable	2,359	41,095		43,454
Increase in Accounts Receivable - Other	(1,038)			(1,038)
Decrease in Prepaid Expenses	3,807			3,807
Increase in Prepaid Income Tax	(816)			(816)
Increase (Decrease) in Accounts Payable	51,581	(682)		50,899
Decrease in Assessments Received in Advance	(12)			(12)
Increase in Real Estate Taxes Payable	390			390
Decrease in Security Deposits	(200)			(200)
Decrease in Income Taxes Payable	(2,798)			(2,798)
Increase in Payroll and Expenses Payable	1,275			1,275
Increase in Interest Payable		96		96
<u>Net Cash Provided (Used) By Operating Activities</u>	(35,877)	35,233	20,727	20,083
<u>Cash Flows Provided (Used) By Financing Activities:</u>				
Decrease in Note Payable		(71,636)		(71,636)
Interfund Transfers	(1,469)		1,469	
Change in Interfund Liability	(20,976)	20,976		
<u>Net Cash Provided (Used) By Financing Activities</u>	(22,445)	(50,660)	1,469	(71,636)
Net Increase (Decrease) in Cash and Cash Equivalents	(58,322)	(15,427)	22,196	(51,553)
Cash and Cash Equivalents at Beginning of the Year	65,280	15,854	99,619	180,753
<u>Cash and Cash Equivalents at December 31, 2010</u>	\$ 6,958	\$ 427	\$ 121,815	\$ 129,200

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	\$4,700
Interest Expense	\$5,868

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

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: ORGANIZATION

Parkway Towers Condominium Association was incorporated as a nonprofit corporation in the state of Colorado on April 12, 1978. The Association is responsible for the operation and maintenance of the common property of Parkway Towers Condominium Association. Parkway Towers Condominium Association consists of 101 residential units, one of which is owned by the Association, and one (1) commercial unit in Denver, Colorado.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUND

The Association is utilizing the fund method of accounting, which requires that funds, such as operating funds and funds for future major repairs and replacements, be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the operating fund are generally at the discretion of the Board of the Association. Disbursements from the replacement fund may be made only for designated purposes.

BASIS OF ACCOUNTING

The accompanying financial statements and related corporate income tax returns have been prepared in accordance with the accrual method of accounting.

CONCENTRATION OF CREDIT RISK

The Association's only source of assessments is from Association members. Association members are the owners of the condominium units and accounts receivable from them may be secured by a lien upon their unit.

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, including one (1) commercial unit, are owned by the individual unit owners in common and not by the Association.

NOTE 3: MEMBER ASSESSMENTS

Members' assessments are determined annually. Monthly assessments for each unit are determined based on the allocated interests as stated in the condominium declarations.

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds should be held in separate accounts and are generally not available for normal operations. The Association's budget for 2010 allocated \$30,000 of monthly assessments to be reserved for future major repairs and replacements.

McCaffrey Reserve Consulting conducted a study in April 2010 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, borrow funds, or it may delay major repairs and replacements until funds are available.

NOTE 5: INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2010. 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 4.63% by the State of Colorado.

NOTE 6: SPECIAL ASSESSMENT

The Association approved a special assessment of \$238,698 during the year ended December 31, 2009 for improvements to the parking structure. The special assessment allocated to each unit was computed based on the allocated interest for each unit and was consistent with the method used to establish regular assessments.

Members were provided the option of paying the special assessment either in full by July 20, 2009 or paying the special assessment on a monthly basis over the 12 months beginning August 1, 2009. A discount of 5% of the special assessment amount was computed for each member electing to pay in full; a deferred payment charge of \$180 was added to the total due from each member electing to pay over the ensuing 12 month period.

The special assessment receivable amount included in the December 31, 2010 balance sheet represents amounts not yet collected.

NOTE 7: LOAN PAYABLE

In December 2009, the Association obtained a term loan with Citywide Banks in order to fund the completion of the parking structure project. The original amount of the loan was \$99,041.99

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

Principle and interest payments of \$4,470.35 are due monthly at a fixed interest rate of 5.00% for 23 payments. The first payment was due January 3, 2010. The entire remaining unpaid principal and interest balance shall be due and payable on December 3, 2011.

The annual payments on this note are as follows;

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
December 31, 2011	\$ 27,406	\$ 664	\$ 28,070

NOTE 8: LITIGATION

During 2010 one of the homeowners has filed a lawsuit against the Association. As of May 25, 2011 the outcome of this suit was not determined. The Association's insurance company is representing the Association in this matter.

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 25, 2011, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
(Unaudited)

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2010
 (Unaudited)

McCaffrey Reserve Consulting conducted a study in April 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates are based on current estimated replacements costs 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 Future Average Replacement Costs</u>
Roofing	2011 - 2029	\$ 42,720
Asphalt	2011 - 2025	126,545
Common Areas	2011 - 2025	163,875
Exterior	2011 - 2018	155,960
Mechanical	2011 - 2026	750,000
Pool and Spa Area	2014 - 2016	18,600
Lighting	2016	30,000
<u>Total:</u>		<u>\$ 1,287,700</u>

The study assumes accumulated funds of \$129,742 in the replacement fund at December 31, 2010. The study recommends a replacement fund contribution for 2011 of \$139,200. The Association budgeted \$30,000 to fund the replacement fund in 2011.