

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014

PARKWAY TOWERS CONDOMINIUM ASSOCIATION

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February 26, 2015

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Parkway Towers Condominium Association

Report on the Financial Statements

I have audited the accompanying financial statements of Parkway Towers Condominium Association, which comprise the balance sheet as of December 31, 2014, 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

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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 December 31, 2014, 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 page 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. 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 my inquiries, the basic financial statements, and other knowledge I 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. Samuels CPA, C.S.

PARKWAY TOWERS CONDOMINIUM ASSOCIATION

BALANCE SHEET DECEMBER 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 12,630	\$ 249,320	\$ 261,950
Accounts Receivable - Net of Allowance For Doubtful Accounts of \$56,000	24,996		24,996
Accounts Receivable - Other	1,106		1,106
Prepaid Expenses	41,721		41,721
Unit Renovation	27,397		
Less Accumulated Depreciation	(3,196)		
Net Depreciable Assets	24,201		24,201
<u>Total Assets</u>	<u>\$ 104,654</u>	<u>\$ 249,320</u>	<u>\$ 353,974</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 33,538	\$	\$ 33,538
Salaries, Wages and Related Expenses Payable	2,166		2,166
Assessments Received in Advance	17,063		17,063
Accrued Interest Payable	189		189
Income Tax Payable	987		987
Real Estate Taxes Payable	542		542
Note Payable - FCF Premium Finance, LLP	31,215		31,215
Security Deposit	1,200		1,200
<u>Total Liabilities</u>	86,900		86,900
 <u>Fund Balances</u>			
Fund Balances	17,754	249,320	267,074
 <u>Total Liabilities and Fund Balances</u>	 <u>\$ 104,654</u>	 <u>\$ 249,320</u>	 <u>\$ 353,974</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Scheduled Maintenance Fees - Homeowners	\$ 401,145	\$ 45,000	\$ 446,145
Parking Income	4,520		4,520
Unit Rental	14,719		14,719
Laundry Income	7,260		7,260
Interest Income		653	653
Late Fees and Other Income	11,068		11,068
Storage Income	1,240		1,240
<u>Total Revenues</u>	<u>439,952</u>	<u>45,653</u>	<u>485,605</u>
<u>EXPENSES:</u>			
Repairs and Maintenance:			
HVAC Repairs and Maintenance	52,069		52,069
Capital Improvement	45,831	6,100	51,931
Plumbing Repairs	24,772		24,772
Other Repairs and Maintenance	21,512		21,512
Snow and Trash Removal	15,298		15,298
Janitorial	10,909		10,909
Garage Maintenance	9,795		9,795
Elevator Repair and Maintenance	9,139		9,139
Building Repairs and Maintenance	7,580		7,580
Pool and Sauna Repairs and Maintenance	5,901		5,901
Electrical Repairs and Supplies	2,202		2,202
Grounds Maintenance	486		486
Utilities:			
Gas and Electric	79,518		79,518
Water and Sewer	26,871		26,871
Salaries and Related Expenses	47,134		47,134
Insurance	34,500		34,500
Management Fees	23,700		23,700
Legal, Accounting and Professional	8,447		8,447
Office and Administrative Expenses	7,846		7,846
Telephone	6,457		6,457
Fire Alarm Monitoring and Maintenance	3,658		3,658
Depreciation	3,196		3,196
Income Tax	2,713		2,713
Interest Expense	975		975
Property Tax	541		541
<u>Total Expenses</u>	<u>451,050</u>	<u>6,100</u>	<u>457,150</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Revenues (Under) Over Expenses</u>	(11,098)	39,553	28,455
Transfers to Replacement Fund	(20,000)	20,000	
<u>Fund Balances, December 31, 2013</u>	<u>48,852</u>	<u>189,767</u>	<u>238,619</u>
<u>Fund Balance, December 31, 2014</u>	<u>\$ 17,754</u>	<u>\$ 249,320</u>	<u>\$ 267,074</u>

See Accompanying Notes to Financial Statements

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Operating Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>			
Revenues (Under) Over Expenses	(\$ 11,098)	\$ 39,553	\$ 28,455
Adjustments to Reconcile Net Income to Net Provided By Operating Activities:			
Depreciation	3,196		3,196
Changes in Assets and Liabilities			
Increase in Accounts Receivable	(20,040)		(20,040)
Increase in Accounts Receivable - Other	(102)		(102)
Increase in Prepaid Expenses	(7,714)		(7,714)
Decrease in Prepaid Income Tax	126		126
Increase in Accounts Payable	15,356		15,356
Increase in Salaries, Wages and Expenses Payable	2,166		2,166
Increase in Note Payable - FCF Premium Finance, LLP	5,398		5,398
Increase in Accrued Interest Payable	189		189
Increase in Assessments Received in Advance	3,689		3,689
Increase in Income Taxes Payable	783		783
Increase in Security Deposit	600		600
Net Cash (Used) Provided By Operating Activities	(7,451)	39,553	32,102
<u>Cash Flows (Used) Provided By Financing Activities:</u>			
Interfund Transfers	(20,000)	20,000	
<u>Cash Flows (Used) By Investing Activities:</u>			
Unit Renovation	(27,397)		(27,397)
Cash and Cash Equivalents at Beginning of the Year	67,478	189,767	257,245
<u>Cash and Cash Equivalents at December 31, 2014</u>	\$ 12,630	\$ 249,320	\$ 261,950

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	\$1,804
Interest Expense	\$ 786

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, 2014

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 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.

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 commercial unit, are owned by the individual unit owners in common and not by the Association.

DEPRECIATION

The unit renovation is recorded at cost. At December 31, 2014 the accumulated depreciation on the unit renovation was \$3,196. Depreciation is computed using the straight line method over 5 years.

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 3: 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. Accounts receivable at the balance sheet date represent fees due from the unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments become delinquent. Any excess assessments at year end are retained by the Association for use in succeeding years.

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 which aggregate approximately \$249,320 at December 31, 2014, are held in separate accounts and are generally not available for normal operations.

McCaffrey Reserve Consulting conducted a study in July 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, 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, 2014. 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.

As of December 31, 2014, the tax years that remain subject to examination by taxing authorities begin with December 31, 2011 for federal tax purposes and December 31, 2010 for state tax purposes.

NOTE 6: NOTE PAYABLE - FCF PREMIUM FINANCE, LLP

In November 2014, the Association secured a loan with FCF Premium Finance, LLP to pay the Association's annual insurance premiums. The terms of the loan require 9 monthly payments of \$3,573.95, which includes interest at 7.25%. At December 31, 2014 the balance on the loan was \$31,215.

PARKWAY TOWERS CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 7: MECHANICAL SYSTEM EVALUATION

In October 2013, Lohr Design Group, mechanical and energy engineers, conducted an evaluation of the mechanical systems in the building. They concluded that mechanical systems have reached the end of their useful lives. Estimates to replace the systems range from \$2,842,535 to \$3,200,011. The Association is looking into various ways to fund this project, including obtaining a bank loan, and possibly a special assessment.

NOTE 8: UNINSURED CASH BALANCES

The Association maintains its cash balances at Citywide Banks. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are approximately \$11,896 at December 31, 2014.

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 26, 2015, 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, 2014
 (Unaudited)

McCaffrey Reserve Consulting conducted a study in July 2014 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 Current Average Replacement Costs</u>
Roofing	2015	\$ 42,720
Asphalt	2015 - 2035	105,825
Common Areas	2015 - 2037	194,800
Exterior	2015 - 2032	130,460
Mechanical	2015 - 2021	3,889,000
Pool and Spa Area	2015 - 2023	34,600
Lighting	2017	30,000
<u>Total:</u>		<u>\$ 4,427,405</u>

The study recommends accumulated funds of \$255,044 in the replacement fund at December 31, 2014, and recommends a replacement fund contribution for 2014 of \$1,200,000. The Association budgeted \$52,678 to fund the replacement fund in 2015. Funding requirements are based on an inflation rate of 3.0% and assumes the Association will earn 1.5% on its invested funds. The study recommends an annual funding increase of 3% per year.