

Plaza de Monaco Towers Condominium Association, Inc.



Financial Statements and Supplementary Information

For the Year Ended December 31, 2019

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Accountant's Compilation Report

To the Board of Directors of
Plaza de Monaco Towers Condominium Association, Inc.

I have compiled the accompanying balance sheet of Plaza de Monaco Towers Condominium Association, Inc. (the "Association") as of December 31, 2019, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended. I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

The Association's Board of Directors 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

I am not independent with respect to Plaza de Monaco Towers Condominium Association, Inc. as of and for the year ended December 31, 2019, because I performed certain accounting services that impaired my independence.

Ryan E. Lee, CPA

Principal
Lee Public Accounting, LLC

April 16, 2020
Littleton, Colorado

Plaza de Monaco Towers Condominiums Association, Inc.
Balance Sheet
As of December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Towers Replacement Fund</u>	<u>Total</u>
Assets				
Cash	\$ 117,147	\$ 501,945	\$ 165,234	\$ 784,326
Certificates of deposit	-	159,201	-	159,201
Assessments receivable	5,807	-	-	5,807
Interfund balance	103,144	(105,559)	2,415	-
Total Assets	\$ 226,098	\$ 555,587	\$ 167,649	\$ 949,334
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	\$ 51,666	\$ -	\$ -	\$ 51,666
Assessments received in advance	25,395	-	-	25,395
Deferred revenue	49,037	-	-	49,037
Total Liabilities	126,098	-	-	126,098
Fund balances	100,000	555,587	167,649	823,236
Total Liabilities and Fund Balances	\$ 226,098	\$ 555,587	\$ 167,649	\$ 949,334

Plaza de Monaco Towers Condominiums Association, Inc.
Statement of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Towers Replacement Fund	Total
Revenues				
Assessments	\$ 668,139	\$ 362,239	\$ 32,613	\$ 1,062,991
Common area leases	132,272	-	-	132,272
Other income	6,730	-	-	6,730
Rental income	6,120	-	-	6,120
Late fees and collection income	1,731	-	-	1,731
Interest	-	8,530	2,280	10,810
Total Revenues	\$ 814,992	\$ 370,769	\$ 34,893	\$ 1,220,654
Expenses				
Salaries and payroll expenses	\$ 234,621	\$ -	\$ -	\$ 234,621
Utilities	187,272	-	-	187,272
Building repairs and maintenance	93,707	148,070	-	241,777
Insurance	70,054	-	-	70,054
Landscaping and grounds	45,662	-	-	45,662
Taxes	24,130	-	-	24,130
Professional fees	22,128	-	-	22,128
Office and administrative	16,064	-	-	16,064
Towers expenses	14,532	-	-	14,532
Recreation facilities	10,643	-	-	10,643
HVAC and boiler systems	9,268	-	-	9,268
Association owned unit expenses	7,172	-	-	7,172
Total Expenses	735,253	148,070	-	883,323
Excess of Revenues Over Expenses	\$ 79,739	\$ 222,699	\$ 34,893	\$ 337,331
Changes in Fund Balances				
Surplus funds transfers	(79,739)	78,190	1,549	-
Beginning Fund Balances	100,000	254,698	131,207	485,905
Ending Fund Balance	\$ 100,000	\$ 555,587	\$ 167,649	\$ 823,236

Plaza de Monaco Towers Condominiums Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Towers Replacement Fund	Total
Cash Flows From Operating Activities				
Excess of Revenues Over Expenses	\$ 79,739	\$ 222,699	\$ 34,893	\$ 337,331
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Assessments receivable	(1,048)			(1,048)
Increase (decrease) in:				
Accounts payable and accrued liabilities	6,744			6,744
Assessments received in advance	2,945			2,945
Deferred revenue	(1,227)			(1,227)
Net cash provided by operating activities	87,153	222,699	34,893	344,745
Cash Flows From Investing Activities				
Redemptions of certificates of deposit, net		(3,438)		(3,438)
Net cash used by investing activities	-	(3,438)	-	(3,438)
Cash Flows From Financing Activities				
Surplus funds transfers	(79,739)	78,190	1,549	-
Interfund activities	1,760	(214)	(1,546)	-
Net cash (used) provided by financing activities	(77,979)	77,976	3	-
Net increase in cash	\$ 9,174	\$ 297,237	\$ 34,896	\$ 341,307
Cash, beginning of year	107,973	204,708	130,338	443,019
Cash, end of year	\$ 117,147	\$ 501,945	\$ 165,234	\$ 784,326
Supplemental Cash Disclosures				
Cash paid for income taxes	\$ 21,608	\$ -	\$ -	\$ 21,608

Plaza de Monaco Towers Condominium Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2019

Note 1 – Nature of the Association

Plaza de Monaco Towers Condominium Association, Inc. (the “Association”) was organized as a non-profit corporation in the State of Colorado in 1980. The purpose of the Association is to provide for the operation, administration, use, maintenance, and replacement of the common property, as defined in the Association’s *Declaration of Covenants, Conditions and Restrictions of The Plaza de Monaco Towers Condominiums, Phase No.1* (the “Declaration”). The Association consists of the Owners of 214 residential condominium units located in Denver, Colorado.

The six-building complex was constructed in 1970-73 and was converted to condominiums beginning in 1980. The complex consists of two seven-story towers, each of which contains 67 units and four three-story buildings, each of which contains 20 units. Amenities include a swimming pool and Jacuzzi, party room, billiards room, workout room, locker rooms and a guest room which is available for short-term rental.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared using the accrual method of accounting.

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 purpose:

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 of common area property.

Towers Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements of the property specific to the tower buildings.

Cash

The Association considers all highly liquid investments with an original maturity of three months or less to be cash. The Association continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of December 31, 2019, the Association had no cash equivalents.

Certificates of Deposit

As of December 31, 2019, the Association held investments in certificates of deposit (“CDs”). The CDs are classified as held-to-maturity investments and, accordingly, are recorded in the accompanying financial statements at their historical cost. The carrying value of the CDs approximate their fair values due to their short-term nature. The CDs mature in 2020.

Plaza de Monaco Towers Condominium Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Common Area Property

Real property and common areas acquired upon conversion to a condominium project and any related improvements to such property are not recorded in the Association's financial statements because those properties are effectively owned by the individual unit Owners in common.

Deferred Revenue

In November 2008, the Association entered into an agreement with Comcast whereby the Association granted an easement to service the broadband communications equipment on the property for a 15-year term. As consideration for this easement, the Association received a lump-sum of \$31,950 which is amortized on a straight-line basis over the term of the contract at \$2,130 per year. As of December 31, 2019, the unamortized portion of this payment was \$6,035.

The Association leases some of the roof space of the tower buildings to various communications companies to install and maintain cell phone antennae. As of December 31, 2019, \$43,002 of the proceeds received under these lease agreements is for the 2020 calendar year and, accordingly, is recorded as *deferred revenue* in the accompanying financial statements.

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. Assessments receivable at the balance sheet date represent fees due from unit Owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent in accordance with the Association's collection policy.

The monthly general assessments vary based on each unit's square footage. Any excess assessments at year end are retained by the Association for use in the succeeding year or are applied to the replacement funds.

In addition to the general assessments, each Owner of a tower unit is required to pay an additional monthly assessment to cover expenses directly related to the tower buildings including, elevator maintenance, and fire alarm service.

Use of 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.

Plaza de Monaco Towers Condominium Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2019

Note 3 – Income Taxes

The Association elects to file its federal income tax return as a corporation under section 277 of the Internal Revenue Code. Under that code section, the Association is not taxed on income and expenses related to its membership activities, which is the acquisition, construction, management, maintenance, and care of Association property. Net non-membership income, which includes interest earned and rental income, is taxed at the federal and state levels at 21% and 4.50%, respectively.

The Association's tax filings may be subject to examination by various taxing authorities. The Association's federal income tax returns beginning with the 2017 tax year remain open to potential examination by the Internal Revenue Service; state income returns beginning with the 2016 tax year are open to potential examination.

The standards on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include deciding on an allocation of income and expenses between member and nonmember activities and deciding whether to file Form 1120 or Form 1120-H. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Association has assessed its tax positions for all open tax years and has concluded that there are currently no significant unrecognized tax benefits or liabilities to be recognized.

Note 4 – Future Major Repairs and Replacements

The Association's Declaration requires funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

In 2019, as part of the annual budgeting process, the Association updated a study, originally prepared by a third party in 2013, 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 updated estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures 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 the Declaration, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 5 – Association Owned Unit

The Association owns one of the units which is used as a guest room for short-term rentals for members and their guests. The Association rents the unit for \$60 per night for up to one week at a time. Proceeds from the rental are included in *rental income* in the accompanying *Statement of Revenues, Expenses, and Changes in Fund Balances*.

Plaza de Monaco Towers Condominium Association, Inc.
Notes to Financial Statements
For the Year Ended December 31, 2019

Note 6 – Concentration Risk

The Association maintains its cash balances in bank deposit accounts which, at times throughout the year, may exceed federally insured limits. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2019, there were no uninsured cash balances.

Note 7 – Related Party Transactions

The general manager is also a member of the Association.

Note 8 – Contingencies

The Association may be a party to various legal actions throughout the year normally associated with homeowners' associations, including, but not limited to, the collection of delinquent assessments and covenant compliance matters. The aggregate of which, in management's opinion, would not be material to the future financial condition of the Association.

Note 9 – Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 16, 2020, the date the financial statements were available to be issued.

Plaza de Monaco Towers Condominiums Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
December 31, 2019
Compiled

In 2019, the Association's Board of Directors updated a study, originally performed in 2013 by a third party, to estimate the remaining useful lives and replacement costs of the components of common property. The component listing and replacement costs were updated based on the estimated costs to repair or replace the common property components as of September 2019.

The original 2013 study utilized a "full funding" level goal which sets out to maintain the replacement fund level equal to the physical deterioration of the components of common property. The study includes certain economic assumptions, including an annual after-tax earnings on accumulated replacements funds of 1% and adjusts future replacement costs by an inflation factor of 3%. According to the original study, to achieve this funding goal, a "fully funded" reserve fund would be approximately \$967,000 at the date of the study in 2013. In 2013, the recommended annual reserve deposit was approximately \$190,000. For 2019, the Association increased reserves by \$337,331

The information in the Table below was extracted from the 2019 update to the study and presents significant information about the components of common property. As of December 31, 2019, the Replacement Fund balance and Towers Replacement Fund balance was \$723,236 in the aggregate.

Components of Common Property	Estimated Remaining Useful Lives at the Date of Study (Years)	Estimated Replacement Cost at The Date of Study
Building components	14.2	\$ 2,638,500
Carpet, shed & systems	21.5	106,500
Common rooms & equipment	10.1	144,000
Grounds	10.0	156,500
Parking lots	14.2	310,000
Pool support equipment	7.0	63,400
Roofs	9.2	884,500
Tower specific	13.2	636,250
	TOTAL	<u>\$ 4,939,650</u>
	Replacement fund balances as of December 31, 2019	<u>\$ 723,236</u>