

***APPLETREE CONDOMINIUM
ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2008 and 2007

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ASSOCIATION***

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SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008 and 2007

L.R. COMPTON II, LLC
Certified Public Accountants
3595 South Teller Street, Suite 402
Lakewood, Colorado 80235

APPLETREE CONDOMINIUM ASSOCIATION

DECEMBER 31, 2008 and 2007

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Independent Auditor's Report

Board of Directors
Appletree Condominium Association
Arapahoe County, Colorado

We have audited the accompanying balance sheets of Appletree Condominium Association as of December 31, 2008 and 2007 and the related statements of revenue, expenditures and changes in the operating fund and the revenue, expenditures and changes in the replacement fund, and cash flows, operating fund for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Appletree Condominium Association as of December 31, 2008 and 2007 and the results of its operations of the operating fund and of the replacement fund and its cash flows, operating fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

April 10, 2009

A handwritten signature in black ink, appearing to be 'J. Compton II', located at the bottom right of the page.

**APPLETREE CONDOMINIUM
ASSOCIATION
BALANCE SHEETS**

	DECEMBER 31,	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash, Operating Fund	\$ 96,827	\$ 62,281
Cash, Replacement Fund	110,854	130,022
Certificate of Deposit, Replacement Fund	35,000	-
Assessments Receivable, Net	28,480	12,791
Operating Fund due from Replacement Fund	74,788	86,703
Prepaid Items	<u>6,674</u>	<u>18,748</u>
TOTAL ASSETS	<u>\$ 352,623</u>	<u>\$ 310,545</u>
LIABILITIES and FUND BALANCES		
Current Liabilities		
Payables and Accrued Liabilities	\$ 7,990	\$ 20,882
Prepaid Assessments	7,057	7,230
Replacement Fund due to Operating Fund	<u>74,788</u>	<u>86,703</u>
<i>Total Current Liabilities</i>	<u>89,835</u>	<u>114,815</u>
Fund Balances		
Operating Fund	191,722	152,411
Replacement Fund	<u>71,066</u>	<u>43,319</u>
<i>Total Fund Balances</i>	<u>262,788</u>	<u>195,730</u>
TOTAL LIABILITIES and FUND BALANCES	<u>\$ 352,623</u>	<u>\$ 310,545</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the OPERATING FUND

	YEARS ENDED DECEMBER 31,	
	<u>2008</u>	<u>2007</u>
REVENUE		
Assessments	\$ 346,320	\$ 346,320
Other Income	<u>2,156</u>	<u>2,979</u>
<i>Total Revenue</i>	348,476	349,299
EXPENDITURES		
Maintenance		
Common Area	29,500	30,071
Open Space	51,823	47,549
Pool and Tennis	6,733	21,100
Snow Removal	<u>10,844</u>	<u>18,067</u>
<i>Total Maintenance</i>	98,900	116,787
Operating Expenses		
Transfer to Replacement Fund	84,620	77,770
Utilities	<u>33,509</u>	<u>29,462</u>
<i>Total Operating Expenses</i>	118,129	107,232
Administrative Expenses		
Bad Debts	10,560	8,720
Income Taxes	-	-
Insurance	53,138	59,919
Management Fees	21,300	21,000
Office and Communications	4,087	4,543
Professional Fees	<u>3,051</u>	<u>3,050</u>
<i>Total Administrative Expenses</i>	<u>92,136</u>	<u>97,232</u>
Total Expenditures	<u>309,165</u>	<u>321,251</u>
EXCESS OF REVENUE OVER EXPENDITURES	39,311	28,048
Operating Fund, Beginning of Year	<u>152,411</u>	<u>124,363</u>
OPERATING FUND, End of Year	<u>\$ 191,722</u>	<u>\$ 152,411</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the REPLACEMENT FUND

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
REVENUE		
Assessments Transferred from		
Operating Fund	\$ 84,620	\$ 77,770
Interest	<u>3,123</u>	<u>5,085</u>
<i>Total Revenue</i>	87,743	82,855
 EXPENDITURES		
Major Repairs and Replacements		
Common Areas		
Buildings	56,675	45,377
Recreational Facilities:		
Pools	<u>3,321</u>	<u>-</u>
<i>Total Major Repairs and</i>		
<i>Replacement Expenditures</i>	59,996	45,377
 Administrative Expenses		
Income Taxes	<u>-</u>	<u>-</u>
<i>Total Administration Expenses</i>	<u>-</u>	<u>-</u>
 Total Expenditures	<u>59,996</u>	<u>45,377</u>
 EXCESS of REVENUE		
OVER EXPENDITURES	27,747	37,478
 Replacement Fund, Beginning of Year	<u>43,319</u>	<u>5,841</u>
 REPLACEMENT FUND, End of Year	<u>\$ 71,066</u>	<u>\$ 43,319</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of CASH FLOWS, OPERATING FUND

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2008</u>	<u>2007</u>
<i>CASH PROVIDED by OPERATING ACTIVITIES</i>		
Excess of Revenue Over Expenditures	\$ 39,311	\$ 28,048
<i>Adjustments to Reconcile Excess of Revenue over Expenditures to Net Cash (Used) Provided by Operating Activities</i>		
Assessments Receivable, Net Operating Fund due from Replacement Fund	(15,689)	(2,803)
Prepaid Items	11,915	5,174
Accounts Payable	12,074	(2,422)
Prepaid Assessments	(12,892)	8,894
Operating Fund due to Replacement Fund	(173)	1,700
	<u>-</u>	<u>-</u>
<i>Total Cash Provided by Operating Activities</i>	<u>34,546</u>	<u>38,591</u>
<i>NET INCREASE in CASH</i>	<u>34,546</u>	<u>38,591</u>
Cash, Beginning of Year	<u>62,281</u>	<u>23,690</u>
<i>CASH, End of Year</i>	<u>\$ 96,827</u>	<u>\$ 62,281</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

Appletree Condominium Association was incorporated December 30, 1977 as a Colorado Nonprofit Corporation. The Association consists of the owners of 156 residential condominiums housed in 13 buildings and located in unincorporated Arapahoe County, Colorado. The Association's purpose is to perform the obligations and duties set forth in the Condominium Declaration filed December 27, 1977 through its elected Board of Directors. Those obligations and duties include representing all owners, each of whom specifically own the "airspace" within their unit plus certain limited common elements, in matters concerning the common elements (land, buildings and recreational facilities) in which each "air space" owner has an undivided interest and to operate, maintain, improve or add to those common elements in a manner which will protect, promote and advance the health, safety, welfare and interests of those owners and to maintain the common elements in a first class manner.

To accomplish these goals, the Association's Board has the right to levy equal annual assessments per unit that shall be a legal debt second only to a recorded mortgage on the condominium unit. The right to levy assessments includes amounts for day-to-day operations, assessments for the funding of a major replacement and maintenance reserve ("replacement fund") or for special assessments to fund unplanned, unbudgeted major expenditures.

When the Developer transferred title to the common elements of the project to the Association, no value was set on these assets by the developer and therefore, no dollar amount for these assets has been recorded in the Association's financial statements. Major additions to the common elements, paid for with Association funds will be recorded as an asset. Annual assessments levied on each unit owner for the "replacement fund" are considered as additional costs of the unit for income tax purposes.

Significant Accounting Policies

Accrual Accounting

The financial statements of Appletree Condominium Association are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as applied to *Common Interest Realty Associations*. The reporting format is consistent with that developed by the *Institute of Real Estate Management* to report annual results of operations within the condominium industry.

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(Continued)

Significant Accounting Policies (Continued)

Fund Accounting

The books and records of the Association recognize two primary funds:

Operating Fund: This fund records the daily activities of operating the Association, including the annual budgeting, assessing of the owners, collecting of assessments, disbursing funds under the annual budget and paying income taxes, if any are due, on income unrelated to membership in the Association.

Replacement Fund: This fund records that portion of unit owners' annual assessments restricted to future major maintenance, repair and replacement expenditures as projected in the Association's July 1995 *Engineering Financial Reserve Analysis* (updated in 1999) Reserve Study. This study forecasts the cash necessary to fund the projects considered advisable to maintain the Association's property in first class condition.

Furniture and equipment or major common element asset additions purchased by the replacement fund are transferred to and recorded in the operating fund as is the related accumulated depreciation. Major maintenance, repair or replacement projects to date have been expended by the replacement fund, not capitalized.

This fund invests in income producing securities. Income from these investments are recorded in the replacement fund; However, income taxes have been charged to the operating fund.

Certificate of Deposit

Included in the portfolio of the replacement fund at December 31, 2008 is a 3.8% certificate of deposit that matures June 30, 2009.

Prepaid Items

Appletree Condominium Association may pay certain expenses such as insurance on an annual basis. The portions to be expensed in a future accounting period are recorded as prepaid items.

Prepaid Assessments

Monthly assessments to the members are billed in advance, and may be paid prior to the period billed. Any early payments received are recorded as prepaid assessments and not recognized as income until the appropriate accounting period.

Fair Value of Financial Instruments

The carrying value of cash, short-term receivables, short-term payables and long-term debt approximate their fair value at December 31, 2008. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(Continued)

Significant Accounting Policies (Continued)

Income Taxes

The Association is responsible for any income taxes due on its income from sources unrelated to members' ownership of condominiums. Such income may include interest, dividends, and other unrelated income. Income tax filings may be under a special election as an Homeowners Association, or as a standard Corporation. Filings in 2008 and 2007 were as a Corporation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: Assessments Receivable, Net

The receivables arising from ordinary homeowner activities are, in management's opinion, collectible in full since they constitute a legal debt of the property subject only to a prior first mortgage on the condominium. The total owed to the Association includes any late and may include legal fees incurred in collection. These debts, however, may require the Board of Directors exercise the Association's remedies to collect. Even if the Association were to act on its possible remedies, the debt and the costs to do so may not be recoverable, therefore an allowance for uncollectable accounts has been established of \$36,860 and \$26,300 at December 31, 2008 and 2007, respectively. Assessments receivable are shown on the Association's financial statements at the total billed amount net of the allowance for uncollectable accounts.

NOTE 3: Replacement Fund

The Association's governing documents direct the Board to accumulate funds for future major maintenance, repairs and replacements. Accumulated funds are held in a separate account and are generally not available for day-to-day operations. The Board commissioned an independent building consultant to prepare a study of the future major maintenance, repair and replacement needs of the common areas of the Association. This study, updated in 1999, projects the need for funds and their possible use from 1999 through 2015.

Actual earnings and expenditures may vary from the amounts estimated in the 1999 updated study, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major maintenance, repairs and replacements. If additional monies are found to be necessary, the Board has the right to increase regular assessments restricted to the replacement fund, pass special assessments, or delay the major maintenance and replacement projects until funds are available.

***APPLETREE CONDOMINIUM
ASSOCIATION***

**NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(Continued)**

NOTE 4: Restatements

Certain accounts from the December 31, 2007 financial statements have been reclassified to conform to the presentation at December 31, 2008.

***APPLETREE CONDOMINIUM
ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2008

L.R. COMPTON II, LLC

Certified Public Accountants

3595 S. Teller Street, Suite 402

Lakewood, Colorado 80235

(303) 980-6232

Independent Auditor's Report on Supplementary Information

Members of the Board of Directors
Appletree Condominium Association
Arapahoe County, Colorado

Our report on our audits of the basic financial statements of Appletree Condominium Association at December 31, 2008 and 2007 and for the years then ended appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information for the year ended December 31, 2008, *Actual Results Versus Budgeted Revenue and Expenditures, Operating Fund*, on page 10, is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Appletree Condominium Association. Such information, except for the column marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The *Summary Report on the Reserve Study, November 1999* presented on page 11, is not a required part of the basic financial statements of Appletree Condominium Association at December 31, 2008 but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

April 10, 2009

APPLETREE CONDOMINIUM ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS
BUDGET for the OPERATING FUND
YEAR ENDED DECEMBER 31, 2008

	ACTUAL	BUDGET (UNAUDITED)	VARIATION (OVER)/ UNDER BUDGET
REVENUE			
Assessments	\$ 346,320	\$ 346,320	\$ -
Interest and			
Other Income	<u>2,156</u>	<u>670</u>	<u>(1,486)</u>
Total Revenue	348,476	346,990	(1,486)
EXPENDITURES			
Maintenance			
Common Area	29,500	35,600	6,100
Open Space	51,823	60,870	9,047
Pool & Tennis	6,733	7,900	1,167
Snow Removal	10,844	8,000	(2,844)
Operations			
Utilities	33,509	44,000	10,491
Administrative Expenses			
Bad Debts	10,560	3,000	(7,560)
Income Taxes	-	500	500
Insurance	53,138	71,250	18,112
Management Fees	21,300	21,000	(300)
Office and			
Communications	4,087	6,300	2,213
Professional Fees	<u>3,051</u>	<u>3,950</u>	<u>899</u>
Total Expenditures	<u>224,545</u>	<u>262,370</u>	<u>37,825</u>
EXCESS of REVENUE FROM OPERATIONS	123,931	84,620	(39,311)
Assessments Transferred to			
Replacement Fund	<u>84,620</u>	<u>84,620</u>	<u>-</u>
EXCESS of REVENUE OVER EXPENDITURES	\$ <u>39,311</u>	\$ <u>-</u>	\$ <u>(39,311)</u>

* A + variation in revenue represents an amount in excess of the budget
A () variation in expenditures represents an amount in excess of the budget.

**APPLETREE CONDOMINIUM
ASSOCIATION**

**FUTURE MAJOR REPAIRS and REPLACEMENTS
PROPOSED for the REPLACEMENT FUND**

DECEMBER 31, 2008

The Association's Board of Directors contracted a study in 1995, updated in 1999, to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The study was prepared by an independent building consultant who inspected the common areas of the property. Costs were based on estimates, including 6.0% inflation, offset by 3.5% earnings, to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date.

The following table is based on the 1999 study and presents significant information about the components, estimated lives and costs of common property:

<u>Components</u>	<u>1999 Estimated Remaining Useful Life in Years</u>	<u>1999 Estimated Current Replacement Cost</u>
Concrete	6	\$ 3,169
Asphalt	3 to 8	57,504
Retaining Walls	2 to 4	22,810
Pool	1 to 15	37,361
Building Roofs and Exteriors	2 to 10	452,385
Electrical	1 to 5	206,000
Crawl Space	1 to 3	500,400
Drainage	1 to 14	161,184
Tennis Court	7 to 8	11,600
Other	1 to 12	<u>10,200</u>
TOTAL		<u><u>1,462,613</u></u>