

***APPLETREE CONDOMINIUM
ASSOCIATION***

**FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2011 and 2010

***APPLETREE CONDOMINIUM
ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011 and 2010

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

APPLETREE CONDOMINIUM ASSOCIATION

DECEMBER 31, 2011 and 2010

TABLE OF CONTENTS

<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
Balance Sheets	2
Statements of Revenue, Expenditures and Changes in the Operating Fund	3
Statements of Revenue, Expenditures and Changes in the Replacement Fund	4
Statements of Cash Flows, Operating Fund	5
Notes to Financial Statements	6
<i>Supplementary Information</i>	
<i>Independent Auditor's Report on Supplementary Information</i>	10
Schedule of Actual Revenue and Expenditures Versus Budget for the Operating Fund	11
Schedule of Future Major Repair and Replacements Proposed for the Replacement Fund	12

L.R. COMPTON II, LLC

Certified Public Accountants

3595 S. Teller Street, Suite 402

Lakewood, Colorado 80235

(303) 980-6232

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, 2011 and 2010 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 audits.

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, 2011 and 2010 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.

March 7, 2012

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

**APPLETREE CONDOMINIUM
ASSOCIATION
BALANCE SHEETS**

	DECEMBER 31,	
	2011	2010
ASSETS		
Cash, Operating Fund	\$ 9,821	\$ 1,024
Cash, Replacement Fund	89,960	28,558
Certificates of Deposit, Replacement Fund	90,000	125,000
Assessments Receivable, Net	14,392	7,285
Accrued Interest Receivable, Replacement Fund	110	-
Replacement Fund due from Operating Fund	-	9,500
Prepaid Items	<u>5,292</u>	<u>4,892</u>
TOTAL ASSETS	\$ <u>209,575</u>	\$ <u>176,259</u>
LIABILITIES and FUND BALANCES		
Liabilities		
Payables and Accrued Liabilities	\$ 10,827	\$ 10,829
Prepaid Assessments	9,497	7,991
Operating Fund due to Replacement Fund	<u>-</u>	<u>9,500</u>
Total Liabilities	<u>20,324</u>	<u>28,320</u>
Fund Balances		
Operating Fund	9,181	(15,119)
Replacement Fund	<u>180,070</u>	<u>163,058</u>
Total Fund Balances	<u>189,251</u>	<u>147,939</u>
TOTAL LIABILITIES and FUND BALANCES	\$ <u>209,575</u>	\$ <u>176,259</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the OPERATING FUND

	YEARS ENDED DECEMBER 31,	
	<u>2011</u>	<u>2010</u>
REVENUE		
Assessments	\$ 355,680	\$ 346,320
Other Income	<u>4,720</u>	<u>5,022</u>
Total Revenue	360,400	351,342
EXPENDITURES		
Maintenance		
Common Area	30,225	47,919
Open Space	76,515	81,529
Pool and Tennis	7,601	6,899
Snow Removal	<u>19,452</u>	<u>7,891</u>
Total Maintenance	133,793	144,238
Operating Expenses		
Transfer to Replacement Fund	107,457	107,457
Utilities	<u>52,932</u>	<u>54,908</u>
Total Operating Expenses	160,389	162,365
Administrative Expenses		
Bad Debts	(2,093)	28,899
Income Taxes	-	-
Insurance	44,958	48,246
Management Fees	23,400	22,200
Office and Communications	7,187	7,964
Professional Fees	<u>4,830</u>	<u>7,407</u>
Total Administrative Expenses	<u>78,282</u>	<u>114,716</u>
Total Expenditures	<u>372,464</u>	<u>421,319</u>
EXCESS OF REVENUE OVER EXPENDITURES	(12,064)	(69,977)
Operating Fund, Beginning of Year	(15,119)	54,858
Forgiveness of due from Replacement Fund	<u>36,364</u>	<u>-</u>
OPERATING FUND, End of Year	<u>\$ 9,181</u>	<u>\$ (15,119)</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>2011</u>	<u>2010</u>
<i>REVENUE</i>		
Assessments Transferred from Operating Fund	\$ 107,457	\$ 107,457
Interest	<u>571</u>	<u>1,075</u>
<i>Total Revenue</i>	108,028	108,532
<i>EXPENDITURES</i>		
Major Repairs and Replacements		
Common Areas		
Buildings	46,716	123,720
Grounds	<u>7,936</u>	<u>59,380</u>
<i>Total Major Repairs and Replacements</i>	54,652	183,100
Administrative Expenses		
Loss on Investments	-	157
Reserve Study	<u>-</u>	<u>3,537</u>
<i>Total Administration Expenses</i>	<u>-</u>	<u>3,694</u>
<i>Total Expenditures</i>	<u>54,652</u>	<u>186,794</u>
<i>EXCESS of REVENUE OVER EXPENDITURES</i>	53,376	(78,262)
Replacement Fund, Beginning of Year	163,058	241,320
Forgiveness of due to Operating Fund	<u>(36,364)</u>	<u>-</u>
<i>REPLACEMENT FUND, End of Year</i>	<u>\$ 180,070</u>	<u>\$ 163,058</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of CASH FLOWS, OPERATING FUND

	<u>YEARS ENDED DECEMBER 31,</u>	
	<u>2011</u>	<u>2010</u>
<i>CASH PROVIDED by OPERATING ACTIVITIES</i>		
Excess of Revenue Over Expenditures	\$ (12,064)	\$ (69,977)
<i>Adjustments to Reconcile Excess of Revenue over Expenditures to Net Cash (Used) Provided by Operating Activities</i>		
Assessments Receivable, Net	(7,107)	30,195
Prepaid Items	(400)	(1,367)
Accounts Payable	(2)	(2,163)
Prepaid Assessments	1,506	504
Operating Funds due to Replacement Fund	(9,500)	9,500
Forgiveness of Operating Fund due to Replacement Fund	<u>36,364</u>	<u>-</u>
<i>Total Cash Provided by Operating Activities</i>	<u>8,797</u>	<u>(33,308)</u>
<i>NET INCREASE/(DECREASE) in CASH</i>	8,797	(33,308)
Cash, Beginning of Year	<u>1,024</u>	<u>34,332</u>
<i>CASH, End of Year</i>	<u>\$ 9,821</u>	<u>\$ 1,024</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010

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 personal 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, 2011 and 2010

(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 August 2010 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 may be transferred to and recorded in the operating fund with the related accumulated depreciation. Major maintenance, repair or replacement projects to date have been expended by the replacement fund, not capitalized.

Certificate of Deposit

As of December 31, 2011, the portfolio of the replacement fund consists of three certificates of deposit. Maturity dates are spread throughout 2012 with interest rates ranging from 0.30% to 0.45%. At December 31, 2010, there were three certificates of deposit with maturity dates spread throughout 2011 with interest rates ranging from 0.30% to 0.80%.

Prepaid Items

Appletree Condominium Association may pay certain expenses such as insurance on an annual basis. The portions to be expensed in future accounting periods 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, 2011. 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, 2011 and 2010

(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 2011 and 2010 were as a standard 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 fees and may include legal fees incurred. Collection of these debts, however, may require the Board of Directors exercise the Association's legal remedies and even if the Association were to act on its possible remedies, the debt and the costs to do so may not be totally recoverable, therefore an allowance for uncollectable accounts has been established of \$11,600 and \$19,100 at December 31, 2011 and 2010, respectively. The reduction in the allowance for uncollectable accounts is due to an increase in assessment collections. Assessments receivable are shown on the Association's financial statements at the total receivable 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 an updated study of the future major maintenance, repair and replacement needs of the common areas of the Association. This study was completed in August 2010 and projects the needs for funds and their possible use from 2011 through 2040.

Actual earnings and expenditures may vary from the amounts estimated in the 2010 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, 2011 and 2010

(Continued)

NOTE 4: Restatements

Certain accounts from the December 31, 2010 financial statements have been reclassified to conform to the presentation at December 31, 2011.

NOTE 5: Subsequent Events

For the year ended December 31, 2011, the Association has evaluated subsequent events for potential recognition and disclosure through March 7, 2012, the date of the financial statement issuance.

***APPLETREE CONDOMINIUM
ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2011

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, 2011 and 2010 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, 2011, *Actual Revenue and Expenditures Versus Budget for the Operating Fund*, on page 11, 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 *Future Major Repairs and Replacements Proposed for the Replacement Fund* presented on page 12, is not a required part of the basic financial statements of Appletree Condominium Association at December 31, 2011 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.

March 7, 2012

A handwritten signature in black ink, appearing to be 'JL' or similar, located at the bottom right of the page.

APPLETREE CONDOMINIUM ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS BUDGET for the OPERATING FUND YEAR ENDED DECEMBER 31, 2011

	ACTUAL	BUDGET (UNAUDITED)	VARIATION (OVER)/ UNDER BUDGET
<i>REVENUE</i>			
Assessments	\$ 355,680	\$ 355,680	\$ -
Interest and Other Income	<u>4,720</u>	<u>8,120</u>	<u>3,400</u>
<i>Total Revenue</i>	360,400	363,800	3,400
<i>EXPENDITURES</i>			
Maintenance			
Common Area	30,225	32,200	1,975
Open Space	76,515	64,940	(11,575)
Pool & Tennis	7,601	7,750	149
Snow Removal	19,452	10,000	(9,452)
Operations			
Utilities	52,932	57,000	4,068
Administrative Expenses			
Bad Debts	(2,093)	7,000	9,093
Income Taxes	-	500	500
Insurance	44,958	36,000	(8,958)
Management Fees	23,400	23,400	-
Office and Communications	7,187	6,353	(834)
Professional Fees	<u>4,830</u>	<u>11,200</u>	<u>6,370</u>
<i>Total Expenditures</i>	<u>265,007</u>	<u>256,343</u>	<u>(8,664)</u>
<i>EXCESS of REVENUE FROM OPERATIONS</i>	95,393	107,457	12,064
Assessments Transferred to Replacement Fund	<u>107,457</u>	<u>107,457</u>	<u>-</u>
<i>EXCESS of REVENUE OVER EXPENDITURES</i>	\$ <u>(12,064)</u>	\$ <u>-</u>	\$ <u>12,064</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, 2011

The Association's Board of Directors contracted a study in 2010, 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 3.0% inflation, offset by 1.5% 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 2010 study and presents significant information about the components, estimated lives and costs of common property:

<u>Components</u>	<u>2010 Estimated Remaining Useful Life in Years</u>	<u>2010 Estimated Current Replacement Cost</u>
Concrete	0 to 15	\$ 58,115
Asphalt	0 to 9	202,488
Retaining Walls	0 to 36	8,449
Pool	0 to 8	70,440
Building Roofs and Exteriors	0 to 15	890,766
Drainage	0	6,000
Tennis Court	0	4,500
Other	1 to 15	<u>51,026</u>
TOTAL		<u>\$ 1,291,784</u>