

***APPLETREE CONDOMINIUM
ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 and 2012

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ASSOCIATION***

FINANCIAL STATEMENTS
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SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 and 2012

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

APPLETREE CONDOMINIUM ASSOCIATION

DECEMBER 31, 2013 and 2012

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

Board of Directors
Appletree Condominium Association
Arapahoe County, Colorado

We have audited the accompanying financial statements of Appletree Condominium Association, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenue, expenditures and changes in fund balances and cash flows for the years 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

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 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lakewood, Colorado
February 27, 2014



**APPLETREE CONDOMINIUM
ASSOCIATION**
BALANCE SHEETS

	YEARS ENDED DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 8,606	\$ 64,253	\$ 72,859	\$ 31,962
Certificates of Deposit	-	106,189	106,189	205,772
Assessments Receivable, Net	11,211	-	11,211	11,029
Accrued Interest Receivable	-	54	54	288
Prepaid Items	6,784	-	6,784	5,801
Interfund Balances	<u>(27,419)</u>	<u>27,419</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>(818)</u>	\$ <u>197,915</u>	\$ <u>197,097</u>	\$ <u>254,852</u>
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 17,811	\$ -	\$ 17,811	\$ 9,270
Deferred Assessments	<u>9,648</u>	<u>-</u>	<u>9,648</u>	<u>9,756</u>
<i>Total Liabilities</i>	<i>27,459</i>	<i>-</i>	<i>27,459</i>	<i>19,026</i>
FUND BALANCES				
Operating Fund (Deficit)	(28,277)	-	(28,277)	5,795
Replacement Fund	<u>-</u>	<u>197,915</u>	<u>197,915</u>	<u>230,031</u>
<i>Total Fund Balances</i>	<i><u>(28,277)</u></i>	<i><u>197,915</u></i>	<i><u>169,638</u></i>	<i><u>235,826</u></i>
TOTAL LIABILITIES and FUND BALANCES	\$ <u>(818)</u>	\$ <u>197,915</u>	\$ <u>197,097</u>	\$ <u>254,852</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the FUND BALANCES (DEFICIT)

	YEARS ENDED DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 261,470	\$ 122,290	\$ 383,760	\$ 374,400
Other Member Income	4,530	-	4,530	27,458
Interest	-	1,137	1,137	931
<i>Total Revenue</i>	<u>266,000</u>	<u>123,427</u>	<u>389,427</u>	<u>402,789</u>
EXPENDITURES				
Maintenance				
Common Area	43,288	-	43,288	36,550
Open Space	86,480	-	86,480	82,775
Pool and Tennis	9,791	-	9,791	9,697
Snow Removal	14,055	-	14,055	9,270
<i>Total Maintenance</i>	<u>153,614</u>	<u>-</u>	<u>153,614</u>	<u>138,292</u>
Operating				
Utilities	51,930	-	51,930	58,308
<i>Total Operating</i>	<u>51,930</u>	<u>-</u>	<u>51,930</u>	<u>58,308</u>
Replacement Projects	-	155,543	155,543	70,500
Administrative				
Bad Debts	10,384	-	10,384	6,341
Income Taxes	-	-	-	-
Insurance	45,961	-	45,961	46,108
Management Fees	23,700	-	23,700	23,400
Office and Communications	9,702	-	9,702	8,163
Professional Fees	4,781	-	4,781	5,102
<i>Total Administrative</i>	<u>94,528</u>	<u>-</u>	<u>94,528</u>	<u>159,614</u>
Total Expenditures	<u>300,072</u>	<u>155,543</u>	<u>455,615</u>	<u>356,214</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	(34,072)	(32,116)	(66,188)	46,575
Fund Balances, Beginning of Year	<u>5,795</u>	<u>230,031</u>	<u>235,826</u>	<u>189,251</u>
FUND BALANCES (DEFICIT), End of Year	\$ <u>(28,277)</u>	\$ <u>197,915</u>	\$ <u>169,638</u>	\$ <u>235,826</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
CASH PROVIDED (USED) by OPERATING ACTIVITIES:				
Excess (Deficit) of Revenue				
Over Expenditures	\$ (34,072)	\$ (32,116)	\$ (66,188)	\$ 46,575
Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities				
Assessments Receivable, Net	(182)	-	(182)	3,363
Accrued Interest Receivable	-	234	234	(178)
Prepaid Items	(983)	-	(983)	(509)
Accounts Payable and Accrued Liabilities	8,541	-	8,541	(1,557)
Deferred Assessments	<u>(108)</u>	<u>-</u>	<u>(108)</u>	<u>259</u>
Total Cash Provided (Used) by Operating Activities	(26,804)	(31,882)	(58,686)	47,953
CASH PROVIDED (USED) by INVESTING ACTIVITIES:				
Certificates of Deposit	-	99,583	99,583	(115,772)
Interfund Transfers	<u>33,219</u>	<u>(33,219)</u>	<u>-</u>	<u>-</u>
Total Cash Provided (Used) by Investing Activities	<u>33,219</u>	<u>66,364</u>	<u>99,583</u>	<u>(115,772)</u>
NET INCREASE (DECREASE) in CASH	6,415	34,482	40,897	(67,819)
Cash, Beginning of Year	<u>2,191</u>	<u>29,771</u>	<u>31,962</u>	<u>99,781</u>
CASH, End of Year	<u>\$ 8,606</u>	<u>\$ 64,253</u>	<u>\$ 72,859</u>	<u>\$ 31,962</u>
Supplemental Disclosure				
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See Notes to Financial Statements

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012

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 to fund a major replacement and maintenance reserve ("replacement fund") or for special assessments for 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.

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012
(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.

Certificates of Deposit

As of December 31, 2013, the portfolio of the replacement fund consists of three certificates of deposit. Maturity dates are spread throughout 2014 with interest rates ranging from 0.737% to 1.245%. At December 31, 2012, there were six certificates of deposit with maturity dates spread throughout 2013 and 2014 with interest rates ranging from 0.350% to 0.811%.

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.

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash held for transfer or transfer from one fund to the other, if any, is as interfund balances from one fund to the other.

Deferred 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.

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012 (Continued)

Significant Accounting Policies (Continued)

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, 2013. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. Appletree Condominium Association maintains its cash balances in both national banks and with investment firms. The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at December 31, 2013 and 2012, for interest earning balances in national banks, and unlimited insurance on demand deposits. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end December 31, 2013 and 2012, the Association has \$-0- in uninsured deposits.

Income Taxes

The Association is responsible for any income taxes due on 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 2013 and 2012 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 \$26,000 and \$16,100 at December 31, 2013 and 2012, respectively. Assessments receivable are shown on the Association's financial statements at the total receivable amount net of the allowance for uncollectable accounts.

APPLETREE CONDOMINIUM ASSOCIATION

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012 (Continued)

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 need 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.

NOTE 4: Income Taxes

For the years 2013 and 2012, The Association's membership income carried forward to the next year's operations were \$(29,559) and \$(18,389) respectively. At December 31, 2013, the Association showed a \$(91,309) membership (loss) carryforward.

Taxable income (loss) from non-membership sources, net of attributable expenses, was \$(3,376) and \$15,935 in 2013 and 2012 respectively. Appletree Condominium Association has a net loss carryforward of \$10,709 at December 31, 2013.

NOTE 5: Restatements

Certain accounts from the December 31, 2012 financial statements have been reclassified to conform to the presentation at December 31, 2013.

NOTE 6: Contingencies

The Association is a party to various legal actions normally associated with homeowner's associations, such as the collection of delinquent accounts and owner compliance with the covenants, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

**APPLETREE CONDOMINIUM
ASSOCIATION**

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012
(Continued)

NOTE 7: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the "Reserve Study", and on owners' reports of physical conditions. During the years covered herein, the following projects were undertaken and completed by the Replacement Fund:

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Buildings	\$ 28,129	\$ 34,810
Exterior Refurbishing	87,644	-
Grounds	<u>39,770</u>	<u>35,690</u>
Total Replacement Projects	<u><u>\$ 155,543</u></u>	<u><u>\$ 70,500</u></u>

NOTE 8: Subsequent Events

For the year ended December 31, 2013, the Association has evaluated subsequent events for potential recognition and disclosure through February 27, 2014, the date of the financial statement issuance.

***APPLETREE CONDOMINIUM
ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

L.R. COMPTON II, LLC
Certified Public Accountants

***Independent Auditor's Report on
Supplementary Information***

Board of Directors
Appletree Condominium Association
Arapahoe County, Colorado

We have audited the financial statements of Appletree Condominium Association as of and for the years ended December 31, 2013 and 2012, and our report thereon dated February 27, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The *Actual Revenue and Expenditures Versus Budget for the Operating Fund* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *Future Major Repairs and Replacements Proposed for the Replacement Fund*, which is the responsibility of the Association's management, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Lakewood, Colorado
February 27, 2014



APPLETREE CONDOMINIUM ASSOCIATION

ACTUAL REVENUE and EXPENDITURES VERSUS BUDGET for the OPERATING FUND YEAR ENDED DECEMBER 31, 2013

	ACTUAL	BUDGET (UNAUDITED)	VARIATION (OVER)/ UNDER BUDGET
REVENUE			
Assessments	\$ 383,760	\$ 383,760	\$ -
Interest and			
Other Income	<u>4,530</u>	<u>2,120</u>	<u>(2,410)</u>
<i>Total Revenue</i>	388,290	385,880	(2,410)
EXPENDITURES			
Maintenance			
Common Area	43,288	33,400	(9,888)
Open Space	86,480	72,390	(14,090)
Pool & Tennis	9,791	8,750	(1,041)
Snow Removal	14,055	12,000	(2,055)
Operations			
Utilities	51,930	62,000	10,070
Administrative Expenses			
Bad Debts	10,384	4,000	(6,384)
Income Taxes	-	500	500
Insurance	45,961	36,400	(9,561)
Management Fees	23,700	23,700	-
Office and			
Communications	9,702	4,250	(5,452)
Professional Fees	<u>4,781</u>	<u>6,200</u>	<u>1,419</u>
<i>Total Expenditures</i>	<u>300,072</u>	<u>263,590</u>	<u>(36,482)</u>
EXCESS of REVENUE FROM OPERATIONS			
	88,218	122,290	34,072
Assessments Transferred to Replacement Fund	<u>(122,290)</u>	<u>(122,290)</u>	<u>-</u>
EXCESS of REVENUE OVER EXPENDITURES			
	\$ <u>(34,072)</u>	\$ <u>-</u>	\$ <u>34,072</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, 2013
(Not Audited)**

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>