

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

with

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

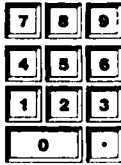
and

SUPPLEMENTARY INFORMATION

December 31, 2005

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BEICHLER & ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 33949, NORTHGLENN, COLORADO 80233-0949
303-792-0410

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Members of the:
Arapahoe Ridge Homeowners Association, Inc.

We have audited the accompanying balance sheet of the Arapahoe Ridge Homeowners Association, Inc. as of December 31, 2005, and the related statements of revenues and expenses and changes in fund balance, and cash flows for the year 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 audit 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides 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 the Arapahoe Ridge Homeowners Association, Inc., as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in the Schedule of Operating Fund Revenues and Expenses - Budget and Actual on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "compiled," 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information on future major repairs and replacement on page 10 is not a required part of the basic financial statements 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 methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Beichler & Associates, Inc.

July 25, 2006

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

	<u>December 31,</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Operating</u>	<u>Replacement</u>	<u>Total</u>	<u>Total (For</u>
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Comparative</u>
				<u>Purposes Only)</u>
<u>ASSETS</u>				
Current Assets:				
Cash	\$ 29,358	\$487,552	\$516,910	\$251,014
Certificates of deposit	-	102,828	102,828	305,696
Assessments receivable, net of allowance for doubtful accounts of \$4,000	5,625	-	5,625	7,626
Prepaid insurance	4,249	-	4,249	3,878
Income tax refund receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>31</u>
TOTAL ASSETS	<u>\$ 39,232</u>	<u>\$590,380</u>	<u>\$629,612</u>	<u>\$568,245</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Current Liabilities:				
Accounts payable	\$ 10,786	\$ -	\$ 10,786	\$ 9,814
Prepaid assessments	<u>4,112</u>	<u>-</u>	<u>4,112</u>	<u>13,736</u>
TOTAL LIABILITIES	14,898	-	14,898	23,550
Contingency (Note 3)	-	-	-	-
Fund balances	<u>24,334</u>	<u>590,380</u>	<u>614,714</u>	<u>544,695</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 39,232</u>	<u>\$590,380</u>	<u>\$629,612</u>	<u>\$568,245</u>

The accompanying notes are an integral part of the financial statements.

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

	<u>For the Years Ended December 31,</u>			
	<u>2005</u>			<u>2004</u>
	<u>Operating</u>	<u>Replacement</u>		<u>Total (For</u>
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>	<u>Comparative</u>
				<u>Purposes Only)</u>
Revenues:				
Member assessments (Note 2)	\$212,400	\$ 82,800	\$295,200	\$295,200
Interest	-	9,195	9,195	8,923
Late fees and other	<u>13,514</u>	-	<u>13,514</u>	<u>11,013</u>
Total Revenues	<u>225,914</u>	<u>91,995</u>	<u>317,909</u>	<u>315,136</u>
Expenses:				
Management	31,560	-	31,560	30,348
Administrative	8,996	-	8,996	7,488
Water and sewer	3,471	-	3,471	3,293
Utilities	16,201	-	16,201	12,904
Sprinkler repairs	345	-	345	5,176
Legal and accounting	3,330	-	3,330	812
Insurance	6,428	-	6,428	6,194
Monuments	-	-	-	5,749
Landscape contract	32,199	-	32,199	30,410
Trash removal	56,125	-	56,125	53,233
Miscellaneous landscape	2,893	-	2,893	3,309
Fence	4,190	-	4,190	4,617
Clubhouse	10,125	2,899	13,024	10,156
Pool	45,691	-	45,691	36,915
Community events	2,398	-	2,398	3,029
Bad debts	-	-	-	2,830
Electrical	2,471	-	2,471	2,501
Reserve study	-	700	700	-
Landscape renovation	-	<u>17,868</u>	<u>17,868</u>	-
Total Expenses	<u>226,423</u>	<u>21,467</u>	<u>247,890</u>	<u>218,964</u>
Excess of Revenues Over Expenses	(509)	70,528	70,019	96,172
Fund Balance - Beginning of Year	<u>24,843</u>	<u>519,852</u>	<u>544,695</u>	<u>448,523</u>
Fund Balance - End of Year	<u>\$ 24,334</u>	<u>\$590,380</u>	<u>\$614,714</u>	<u>\$544,695</u>

The accompanying notes are an integral part of the financial statements.

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

	<u>For the Years Ended December 31,</u>			<u>Total (For Comparative Purposes Only)</u>
	<u>2005</u>	<u>2004</u>	<u>2003</u>	
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	
Cash flows from operating activities:				
Excess of revenues over expenses	\$ <u>(509)</u>	\$ <u>70,528</u>	\$ <u>70,019</u>	\$ <u>96,172</u>
Adjustment to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:				
Decrease in				
assessments receivable	2,001	-	2,001	3,448
Increase (Decrease) in				
accounts payable	972	-	972	(1,062)
(Decrease) Increase in				
prepaid assessments	(9,624)	-	(9,624)	11,079
Increase in prepaid expenses	(371)	-	(371)	(228)
Decrease (Increase) in income				
tax refund receivable	31	-	31	(31)
Decrease in income				
taxes payable	-	-	-	(102)
	<u>(6,991)</u>	<u>-</u>	<u>(6,991)</u>	<u>13,104</u>
Net cash provided (used) by operating activities	<u>(7,500)</u>	<u>70,528</u>	<u>63,028</u>	<u>109,276</u>
Cash flows from investing activities:				
Maturity of certificates of deposit	-	205,532	205,532	116,172
Purchase of certificates of deposit	-	<u>(2,664)</u>	<u>(2,664)</u>	<u>(107,440)</u>
Net cash provided (used) by investing activities	<u>-</u>	<u>202,868</u>	<u>202,868</u>	<u>8,732</u>
Increase (Decrease) in Cash	(7,500)	273,396	265,896	118,008
Cash Balance - Beginning of Year	<u>36,858</u>	<u>214,156</u>	<u>251,014</u>	<u>133,006</u>
Cash Balance - End of Year	<u>\$ 29,358</u>	<u>\$ 487,552</u>	<u>\$ 516,910</u>	<u>\$ 251,014</u>
Supplementary Information:				
Income taxes paid	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ 65</u>	<u>\$ 650</u>
Income taxes refunded	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(1) Organization

The Arapahoe Ridge Homeowners Association, Inc. was incorporated in the State of Colorado on February 9, 1996. The Association is responsible for the operation and maintenance of the common property of the Arapahoe Ridge Homeowners Association, Inc. The Association consists of 615 residential units located in Boulder County, Colorado.

(2) Summary of Significant Accounting Policies

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 purposes.

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.

Member Assessments

Association members are subject to quarterly 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. Any excess assessments at year end are retained by the Association for use in future years. For the year ended December 31, 2005, quarterly assessments were \$120 per unit, with \$33.66 per quarter, per unit, set aside to the replacement fund.

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

(2) Summary of Significant Accounting Policies, Continued

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.

Cash and Cash Equivalents

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.

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest bearing deposits of each fund.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. According to the Association's governing documents, unit owners must approve dispositions of any common real property. Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2005

(3) 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 \$590,380 at December 31, 2005, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund.

Bradley Property Consultants conducted a study in January, 2005 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 designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements 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, or it may delay major repairs and replacements until funds are available.

(4) Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2005, the Association was taxed as a homeowners' association. As a homeowner's association, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at federal and state corporate rates. The Association had no taxable income for the year ended December 31, 2005.

SUPPLEMENTARY INFORMATION

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

SCHEDULE 1 - SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES -
BUDGET AND ACTUAL

	<u>For the Years Ended December 31,</u>			
	<u>2005</u>			<u>2004</u>
	<u>Actual</u>	<u>Compiled Budget</u>	<u>Difference</u>	<u>Actual</u>
Revenues:				
Assessments	\$212,400	\$212,400	\$ -	\$203,880
Late fees and other	<u>13,514</u>	<u>3,000</u>	<u>10,514</u>	<u>11,013</u>
Total Revenues	<u>225,914</u>	<u>215,400</u>	<u>10,514</u>	<u>214,893</u>
Expenses:				
Management	31,560	36,000	4,440	30,348
Water and sewer	3,471	3,875	404	3,293
Legal and accounting	3,330	7,850	4,520	812
Administrative	8,996	8,099	(897)	7,488
Utilities	16,201	10,000	(6,201)	12,904
Sprinkler repairs	345	4,000	3,655	5,176
Insurance	6,428	6,514	86	6,194
Landscape contract	32,199	26,596	(5,603)	30,410
Trash removal	56,125	54,912	(1,213)	53,233
Miscellaneous landscape	2,893	7,500	4,607	3,309
Clubhouse	10,125	5,940	(4,185)	6,873
Pool	45,691	38,372	(7,319)	36,230
Community events	2,398	3,000	602	3,029
Bad debts	-	-	-	2,830
Electrical maintenance	2,471	1,992	(479)	1,444
Fence	<u>4,190</u>	<u>750</u>	<u>(3,440)</u>	<u>-</u>
Total Expenses	<u>226,423</u>	<u>215,400</u>	<u>(11,023)</u>	<u>203,573</u>
Excess of Revenues Over Expenses	\$ <u>(509)</u>	\$ <u>-</u>	\$ <u>(509)</u>	\$ <u>11,320</u>

ARAPAHOE RIDGE HOMEOWNERS ASSOCIATION, INC.

SCHEDULE 2 - SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (COMPILED)

December 31, 2005

Bradley Property Consultants conducted a study in January, 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The following information is based on the study and presents significant information about the components of common property:

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Sprinkle system	24 years	\$ 142,504
Pool	4-30 years	136,792
Clubhouse	2-24 years	52,335
Asphalt	1-14 years	18,060
Fences	12-18 years	499,680
Concrete	3 years	6,000
Landscape	2 years	10,000
Other	3-4 years	<u>13,000</u>
		<u>\$ 878,371</u>