

SETTLER'S VILLAGE SUBASSOCIATION

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For The Year Ended December 31, 2006

GUY R. ANDRUS, JR.

CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

Board of Directors and Members
Settler's Village Subassociation:

I have audited the accompanying balance sheets of Settler's Village Subassociation as of December 31, 2006, and the related statements of revenues and expenditures and changes in members' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Settler's Village Subassociation as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Supplementary Information on Future Major Repairs and Replacements is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

September 12, 2007



SETTLER'S VILLAGE SUBASSOCIATION
BALANCE SHEETS
December 31, 2006

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
ASSETS:			
Cash and Broker Money Market Accounts	\$30,646	\$8,712	\$39,358
Ceertificates of Deposit - at Market Value (Note 6)		\$279,847	279,847
Vanguard GNMA Fund - at Market Value (Note 6)		121,820	121,820
Accounts Receivable - Members	1,160		1,160
Prepaid Insurance	11,480		11,480
Interfund Receivable (Payable)	1,562	(1,562)	0
Prepaid Expense	914		914
	<u>\$45,762</u>	<u>\$408,817</u>	<u>\$454,579</u>
TOTAL ASSETS			
LIABILITIES AND MEMBERS' EQUITY:			
Liabilities:			
Prepaid Assessments	\$9,419		\$9,419
Accounts Payable	54,435		54,435
Income Taxes Payable		\$690	690
	<u>63,854</u>	<u>690</u>	<u>64,544</u>
Total Liabilities			
Members' Equity (Accumulated Deficit)	<u>(18,092)</u>	<u>408,127</u>	<u>390,035</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$45,762</u>	<u>\$408,817</u>	<u>\$454,579</u>

The accompanying Notes to Financial Statements
are an integral part of this statement.

SETTLER'S VILLAGE SUBASSOCIATION
STATEMENTS OF REVENUES AND EXPENDITURES AND CHANGES IN MEMBERS' EQUITY
For The Year Ended December 31, 2006

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
REVENUES:			
Homeowner Assessments (Note 3)	\$313,745	\$104,155	\$417,900
Late and Legal Fees	1,475		1,475
Interest and Capital Gains		14,639	14,639
Other Member Fees	15		15
Total Revenues	<u>315,235</u>	<u>118,794</u>	<u>434,029</u>
EXPENDITURES			
Utilities:			
Water and sewer	90,168		90,168
Trash removal	18,359		18,359
Electricity	3,573		3,573
Repairs and Maintenance:			
Grounds maintenance	54,323	16,780	71,103
Snow removal	44,953	5,813	50,766
Building repairs and maintenance	16,851		16,851
Other:			
Management fees	21,492		21,492
Professional fees	10,051		10,051
Insurance	55,497		55,497
Miscellaneous	966		966
Reserve study	2,426		2,426
Office and administrative	3,871	70	3,941
Income taxes (Note 5)		2,027	2,027
Loss on Partial Redemption of Vanguard Fund		4,620	4,620
Wall repair		12,000	12,000
Painting		12,510	12,510
Concrete		11,471	11,471
Total Expenditures	<u>322,530</u>	<u>65,291</u>	<u>387,821</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES			
	(7,295)	53,503	46,208
Increase in Unrealized Loss on Investments (Note 6)		(1,081)	(1,081)
MEMBERS' EQUITY - BEGINNING OF YEAR	<u>(10,797)</u>	<u>355,705</u>	<u>344,908</u>
MEMBERS' EQUITY - END OF YEAR	<u>(\$18,092)</u>	<u>\$408,127</u>	<u>\$390,035</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SETTLER'S VILLAGE SUBASSOCIATION
STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2006

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
CASH WAS PROVIDED (USED) BY:			
Operations:			
Excess (Deficiency) of Revenue Over Expenditures	(\$7,295)	\$53,503	\$46,208
Adjustments required to reconcile excess of revenues over expenditures to cash provided by or used in operations:			
Loss on sale of mutual fund not using cash		4,620	4,620
(Increase) decrease in accounts receivable	245		245
(Increase) decrease in prepaid insurance	4,972		4,972
(Increase) decrease in prepaid income taxes	0		0
Increase (decrease) in prepaid assessments	(6,077)		(6,077)
Increase (decrease) in taxes payable	(822)	690	(132)
Increase (decrease) in accounts payable	17,770	(12,171)	5,599
Cash Provided By (Used In) Operations	8,793	46,642	55,435
Change in Interfund Borrowing	(11,490)	11,490	0
Redemptions of Vanguard GNMA Fund		126,000	126,000
Investments in CD's		(280,000)	(280,000)
Mutual Fund Reinvested Interest		(9,490)	(9,490)
Cash at Beginning of Year	33,343	114,070	147,413
Cash and Money Markets at End of Year	\$30,646	\$8,712	\$39,358

The accompanying Notes to Financial Statements are an integral part of this statement.

**SETTLER'S VILLAGE SUBASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2006**

NOTE 1. ORGANIZATION

Settler's Village Subassociation (the "Association"), a not-for-profit corporation organized under the laws of Colorado in 1995, was formed to manage, maintain and preserve the common area property on behalf of the members of the Association. The common area property includes lots and drives, walls, greenbelt areas and landscape improvements. The Association is also responsible for the maintenance and repair of the lot and home exteriors including roofs, gutters, downspouts, exterior building surfaces, foundations, walks and other exterior improvements, excluding entryways, exterior lighting, private areas and other items designated as owner responsibility per the Declarations. Trash service, and insurance on the townhome buildings, are the responsibility of the Association. The development is located in Douglas County, Colorado, and contains 199 townhomes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

Both the accompanying financial statements and related income tax returns have been prepared in accordance with the accrual method of accounting.

FUND ACCOUNTING

The Association uses the fund accounting method, which requires that funds, such as operating funds and funds for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors. Disbursements from the reserve fund are to be used for the purposes established.

COMMON AREA

In accordance with generally accepted accounting principles applicable to homeowners associations, the common area properties are not reflected in the accompanying financial statements. Major repairs and replacements to the common area properties are recorded as expenditures in the reserve fund.

ACCOUNTS RECEIVABLE - MEMBERS

The Association's policy is to enforce collection of assessments by placing liens on delinquent members' property and by pursuing legal remedies. It is the opinion of the Association's Board of Directors that, in the absence of foreclosure by lenders or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances.

WORKING CAPITAL DEPOSITS

Each first owner was required make a non-refundable contribution equal to three months of assessments to the Association to be used as a working capital reserve. These deposits have been used for operations in the past, and amounts previously reported as a separate equity item have been combined with the operating equity account. Upon the sale of his unit, an owner is entitled to a credit from the purchaser equal to the contribution.

INVESTMENTS

Investments in marketable securities are reported at market value in accordance with generally accepted accounting principles. Annual unrealized gains and losses on the investments are recorded in total as an adjustment to the reserve fund balance. Realized gains and losses, when incurred at actual sale of the investments, are reported as a component of income or expense. (See Note 6).

USE OF ESTIMATES

Estimates and assumptions are used in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 3. ASSESSMENTS

Monthly assessments to members were \$175.

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

Members' assessments are determined by the Board of Directors upon approval of the annual budget, which is divided between amounts needed to meet the normal operating costs of the Association and amounts required to be set aside for estimated future major repairs or capital improvements.

Bornengineering prepared a study in May, 2006, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on a physical observation of the property, discussions with management, experience with similar properties, and current industry texts and bids. The information included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the reserve fund. Reserve additions of \$109,800 are budgeted in 2007 per the study's recommendation. Because actual expenditures may vary from the estimated amounts, and the variations may be material, amounts being accumulated as reserves may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may, subject to certain restrictions in the governing legal documents, increase regular assessments, delay major repairs and replacements until funds are available or pass special assessments.

NOTE 5. FEDERAL AND STATE CORPORATE INCOME TAXES

The Association has filed its income tax returns as a regular corporation. Membership income is generally non-taxable if certain elections are made. Non-membership net income, which is interest income less related expenses and loan interest, is taxable at regular corporate rates of approximately 15% under this method, compared to 30% if the Association filed as an exempt homeowners' association under Section 528. The state tax rate is 4.63%. Losses from membership source expenses in excess of assessments cannot be deducted against non-membership income, but can be carried forward indefinitely to offset any future member source net income. The membership loss carryforward available at December 31, 2006, was \$30,594. A capital loss carryforward of \$4,620 is also available, which can be used to offset any capital gains realized in the future.

Assessments made for the reserve fund and placed in separate investment accounts are not taxable since they are contributions to capital.

NOTE 6. INVESTMENTS

The investments at December 31, 2006, were:

	<u>Cost</u>	<u>Value</u>
Vanguard GNMA mutual fund	\$122,746	\$121,820
CD's - RBC Dain Rauscher account	<u>280,000</u>	<u>279,847</u>
Total	\$402,748	\$401,667

The net unrealized loss on the investments at December 31, 2006, was \$1,081. The cumulative net unrealized loss has been recorded as an decrease in the reserve fund balance in accordance with the policy described in Note 2.

SETTLER'S VILLAGE SUBASSOCIATION
Supplementary Information on Future Major Repairs and Replacements
December 31, 2006
Unaudited

Bornengineering conducted a study in May, 2006, to estimate the remaining useful lives and the replacement costs of the components of the common property. The estimates were based on a property observation, bids received, past costs and experience with similar properties. An inflation rate of 4% and interest earned on investments of 5% were assumed. The projections were assembled using the cash flow method where contributions to the reserve fund are designed to offset the variable projected annual expenditures.

The Reserve Summary and the Reserve Component Detail on the following pages is reproduced from the study document and presents significant information about the common properties.

Reserve Summary

Project Information

Project Name Sulliers Village Sub Association	Type of Property Townhomes
Property Management Company Highlands Ranch Community Association Phone: 303-471-8841 Fax: 303-791-6705	Number of Units 199 Age of Complex 10 Years

General Information

Study year: 2007
Fiscal month: January

Funding Information

Initial balance: \$421,151.72
Planned account funding increase: 5.5 %
Projected interest rate earned: 5 %
Inflation rate for projected expenditures: 4 %
Tax rate on interest earned: 0 %
Average loan rate on borrowed monies: 0 %

Assessment Schedule

Year	Annual Total Contribution	Average Monthly Contribution	Average Monthly Contribution Per Member	Year	Annual Total Contribution	Average Monthly Contribution	Average Monthly Contribution Per Member
2007	\$109,800.00	\$9,150.00	\$45.98	2017	\$187,554.26	\$15,629.52	\$78.54
2008	\$115,839.00	\$9,653.25	\$48.51	2018	\$197,869.73	\$16,489.14	\$82.86
2009	\$122,210.14	\$10,184.18	\$51.18	2019	\$208,757.56	\$17,396.05	\$87.42
2010	\$128,931.70	\$10,744.31	\$53.99	2020	\$220,233.96	\$18,352.83	\$92.23
2011	\$136,022.94	\$11,335.25	\$58.96	2021	\$232,348.84	\$19,362.24	\$97.30
2012	\$143,504.20	\$11,958.68	\$60.09	2022	\$245,125.92	\$20,427.16	\$102.65
2013	\$151,396.93	\$12,616.41	\$63.40	2023	\$258,607.85	\$21,550.65	\$108.29
2014	\$159,723.76	\$13,310.31	\$66.89	2024	\$272,831.27	\$22,736.94	\$114.25
2015	\$168,508.57	\$14,042.38	\$70.36	2025	\$287,836.89	\$23,986.42	\$120.53
2016	\$177,776.54	\$14,814.71	\$74.45	2026	\$303,668.02	\$25,305.67	\$127.16

Reserve Component Detail

A: TOPOGRAPHY, GRADING AND DRAINAGE

Code	Description	Quantity	Frequency	Unit Cost	Total Cost	Start Work	Frequency	Occurs Every	End Work
A1	1 UT of Site Grading								
.1	Cyclical	1 UT	100%	\$5,000.00	\$5,000.00	Jun-2009	3	6 Years	Jun-2021
Cyclically regrade the exterior areas adjacent to the building foundation system and grass swales.									

B: PAVING AND CURBING

Code	Description	Quantity	Frequency	Unit Cost	Total Cost	Start Work	Frequency	Occurs Every	End Work
B1	136,000 Sq. Feet of Asphalt Driving Area								
.1	Cyclical	136,000 Sq. Feet	100%	\$18	\$2,448,000	Jan-2008	4	5 Years	Jan-2023
Cyclically seal coat and crack fill the asphalt surface.									
.2	Cyclical	6,800 Sq. Feet	5%	\$1,73	\$11,764.00	Jun-2009	6	3 Years	Jun-2024
Mill and overlay 5% of the asphalt areas.									

C: FLATWORK

Code	Description	Quantity	Frequency	Unit Cost	Total Cost	Start Work	Frequency	Occurs Every	End Work
C1	34,860 Sq. Feet of Concrete Walkways								
.1	Cyclical	1,394 Sq. Feet	4%	\$9.00	\$12,546.00	Jun-2007	3	7 Years	Jun-2021
Cyclically remove and replace damaged sections of the concrete walkways.									
C2	26,940 Sq. Feet of Concrete Garage Aprons								
.1	Cyclical	1,077 Sq. Feet	4%	\$9.00	\$9,693.00	Jun-2009	3	7 Years	Jan-2023
Cyclically remove and replace damaged sections of the concrete garage aprons.									
C3	6,800 Linear Feet of Concrete Curb and Gutter								
.1	Cyclical	544 Linear Feet	8%	\$13.25	\$7,208.00	Jun-2008	3	7 Years	Jun-2022
Cyclically remove and replace damaged sections of the concrete curb and gutter.									
C4	2,385 Linear Feet of Concrete Drain Pans								
.1	Cyclical	143 Linear Feet	6%	\$36.00	\$5,148.00	Jun-2010	3	8 Years	Jan-2026
Cyclically remove and replace damaged sections of the concrete drain pans.									

D: LANDSCAPING AND APPURTENANCES

Code	Description	Quantity	Frequency	Unit Cost	Total Cost	Start Work	Frequency	Occurs Every	End Work
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Reserve Component Detail

D: LANDSCAPING AND APPURTENANCES (Continued)

D: LANDSCAPING AND APPURTENANCES (Continued)										
D1	2,185 Linear Feet of Retaining Walls									
1	Cyclical	1 UT	--	\$12,000.00	\$12,000.00	Jun-2007	20	1 Years	Jun-2026	
Annually rabbit proof the retaining walls.										
D2	34 EA of Stand Alone Lighting									
1	Cyclical	4 EA	12%	\$800.00	\$3,200.00	Jun-2007	10	2 Years	Jun-2025	
Remove and replace the stand alone lighting.										
D3	260 EA of Landscape Lighting									
1	Cyclical	62 EA	20%	\$150.00	\$7,800.00	Jun-2007	20	1 Years	Jun-2026	
Remove and replace the landscape lighting in phases.										
D4	105 Linear Feet of Metal Railings									
1	Replacement	105 Linear Feet	100%	\$18.00	\$1,890.00	Jun-2020	1		Jun-2020	
Remove and replace the metal railings.										
D5	4 EA of Entrance Monuments									
1	Cyclical	4 EA	100%	\$1,000.00	\$4,000.00	Jun-2010	2	10 Years	Jun-2020	
Cyclically maintain the stone veneer and replace the metal signage.										
D6	1 UT of Irrigation System									
1	Cyclical	1 EA	--	\$2,000.00	\$2,000.00	Jun-2007	10	2 Years	Jun-2025	
Cyclically replace the control clocks in phases.										
D7	1 UT of Miscellaneous Landscaping									
1	Cyclical	1 UT	100%	\$5,000.00	\$5,000.00	Jun-2007	7	3 Years	Jun-2025	
Remove and replace the bark landscaping throughout the community in phases.										
2	Cyclical	1 UT	100%	\$17,000.00	\$17,000.00	Jun-2011	3	6 Years	Jun-2023	
Cyclically maintain the trees throughout the community.										

Reserve Component Detail

E: FAÇADE

Item	Description	Quantity	Unit Cost	Replacement Cost	Start Date	Life	End Date		
E1	284,530 Sq. Feet of Lap Siding and Trim								
.1	Cyclical	85,359 Sq. Feet	30%	\$ 82	\$69,994.38	Jun-2007	4	6 Years	Jun-2026
	Cyclically paint the phase 1 buildings.								
.2	Cyclical	85,359 Sq. Feet	30%	\$ 82	\$69,994.38	Jun-2008	4	6 Years	Jun-2026
	Cyclically paint the phase 2 buildings.								
.3	Cyclical	85,359 Sq. Feet	30%	\$ 82	\$69,994.38	Jun-2009	3	6 Years	Jun-2021
	Cyclically paint the phase 3 buildings.								
E2	31,620 Sq. Feet of Stone Veneer								
.1	Cyclical	1 UT	---	\$3,000.00	\$3,000.00	Jun-2007	20	1 Years	Jun-2026
	Annually reattach the bottom course of the stone on various units as needed.								
.2	Cyclical	1 UT	---	\$2,000.00	\$2,000.00	Jun-2008	4	6 Years	Jun-2026
	Cyclically lockpoint the mortar joints in the stone veneer.								
E3	198 EA of Garage Doors								
E4	199 EA of Free Standing Walls								
.1	Cyclical	50 EA	25%	\$280.00	\$14,000.00	Jun-2007	3	7 Years	Jun-2021
	Cyclically rebuild and repaint a portion of the free standing walls. Phase 3.								
.2	Cyclical	49 EA	25%	\$280.00	\$13,720.00	Jun-2008	3	7 Years	Jun-2022
	Cyclically rebuild and repaint a portion of the free standing walls. Phase 4.								
.3	Cyclical	50 EA	25%	\$280.00	\$14,000.00	Jun-2012	3	7 Years	Jun-2026
	Cyclically rebuild and repaint a portion of the free standing walls. Phase 1.								
.4	Cyclical	50 EA	25%	\$280.00	\$14,000.00	Jun-2013	2	7 Years	Jun-2020
	Cyclically rebuild and repaint a portion of the free standing walls. Phase 2.								

Reserve Component Detail

F: ROOFING

Code	Description	Quantity	Unit	Estimate	Unit Cost	Start Date	Duration	End Date	
F1	3,950 Squares of Asphalt Shingles								
.1	Replacement	1,316 Squares		33%	\$190.00	\$250,040.00	Jun-2021	1	Jun-2021
	Remove and replace the asphalt shingles for the buildings constructed in phase 1.								
.2	Replacement	1,316 Squares		33%	\$190.00	\$250,040.00	Jun-2022	1	Jun-2022
	Remove and replace the asphalt shingles for the buildings constructed in phase 2.								
.3	Replacement	1,316 Squares		33%	\$190.00	\$250,040.00	Jun-2023	1	Jun-2023
	Remove and replace the asphalt shingles for the buildings constructed in phase 3.								
F2	15,570 Linear Feet of Gutters, Downspouts and Extensions								
.1	Replacement	5,190 Linear Feet		33%	\$4.75	\$24,652.50	Jun-2021	1	Jun-2021
	Remove and replace the gutters, downspouts and extensions for the buildings constructed in phase 1.								
.2	Replacement	5,190 Linear Feet		33%	\$4.75	\$24,652.50	Jun-2022	1	Jun-2022
	Remove and replace the gutters, downspouts and extensions for the buildings constructed in phase 2.								
.3	Replacement	5,190 Linear Feet		33%	\$4.75	\$24,652.50	Jun-2023	1	Jun-2023
	Remove and replace the gutters, downspouts and extensions for the buildings constructed in phase 3.								
F3	112 EA of Skylights								
.1	Replacement	37 EA		33%	\$200.00	\$7,400.00	Jun-2021	1	Jun-2021
	Replace the skylights of the phase 1 buildings in conjunction with the roof replacement.								
.2	Replacement	37 EA		33%	\$200.00	\$7,400.00	Jun-2022	1	Jun-2022
	Replace the skylights of the phase 2 buildings in conjunction with the roof replacement.								
.3	Replacement	36 EA		32%	\$200.00	\$7,200.00	Jun-2023	1	Jun-2023
	Replace the skylights of the phase 3 buildings in conjunction with the roof replacement.								