

DOWNTOWN I & II CONDOMINIUMS
FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

INDEPENDENT ACCOUNTANT'S REPORT

Board of Directors
Downtown I & II Condominiums

We have audited the accompanying balance sheets of Downtown I & II Condominiums as of December 31, 2007 and 2006, and the related statements of revenue and expenses, members' equity, and cash flows 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 audits 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 statements 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 Downtown I & II Condominiums as of December 31, 2007 and 2006, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, 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 replacements 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 reading and summarizing the repair and replacement study. However, we did not audit the information and express no opinion on it.

AHLBERG & COMPANY, P.C.
Certified Public Accountants

DOWNTOWN I & II CONDOMINIUMS
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Cash - operating	\$ 2,594	\$ 4,057
Cash - money market	15,931	15,377
Total cash	18,525	19,434
Investments	53,768	51,562
Assessments receivable	1,268	731
Accounts receivable - other	-	70
Prepaid income taxes	112	-
Prepaid insurance	4,013	7,064
 TOTAL ASSETS	 <u>\$ 77,686</u>	 <u>\$ 78,861</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>LIABILITIES:</u>		
Accounts payable	\$ 4,705	\$ 3,243
Income taxes payable	-	242
Prepaid assessments	244	769
Total liabilities	<u>4,949</u>	<u>4,254</u>
<u>MEMBERS' EQUITY:</u>		
Initial working capital	12,005	12,005
Repair and replacement fund	5,114	4,640
Members' equity	55,618	57,962
Total members' equity	<u>72,737</u>	<u>74,607</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 <u>\$ 77,686</u>	 <u>\$ 78,861</u>

See accountant's report and notes to financial statements

DOWNTOWN I & II CONDOMINIUMS
STATEMENTS OF REVENUE AND EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<u>REVENUE:</u>		
Gross assessments	\$ 88,503	\$ 82,386
Less repair and replacement fund assessments	<u>(9,324)</u>	<u>(58,765)</u>
Operating assessments	79,179	23,621
Interest	296	149
Dividends	2,141	1,562
Late fees/miscellaneous	<u>1,283</u>	<u>1,655</u>
Total operating revenue	<u>82,899</u>	<u>26,987</u>
 <u>EXPENSES:</u>		
Administrative	14,906	14,417
Operating	32,907	31,296
Maintenance	27,639	24,924
Taxes and insurance	<u>18,641</u>	<u>17,197</u>
Total expenses	<u>94,093</u>	<u>87,834</u>
 (Deficiency) of revenue over expenses before transfer from repair and replacement fund	 (11,194)	 (60,847)
 Transfer from repair and replacement fund	 <u>8,850</u>	 <u>54,125</u>
 (DEFICIENCY) OF REVENUE OVER EXPENSES	 <u>\$ (2,344)</u>	 <u>\$ (6,722)</u>

See accountant's report and notes to financial statements

DOWNTOWN I & II CONDOMINIUMS
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

	<u>Initial Working Capital</u>	<u>Repair and Replacement Fund</u>	<u>Members' Equity</u>
Balance at December 31, 2005	\$ 12,005	\$ -	\$ 64,684
Addition:			
Repair and replacement fund assessments		58,765	
Deductions:			
Transfer repair and replacement fund to operations (Deficiency) of revenue over expenses		(54,125)	<u>(6,722)</u>
Balance at December 31, 2006	12,005	4,640	57,962
Addition:			
Repair and replacement fund assessments		9,324	
Deductions:			
Transfer repair and replacement fund to operations (Deficiency) of revenue over expenses		(8,850)	<u>(2,344)</u>
Balance at December 31, 2007	<u>\$ 12,005</u>	<u>\$ 5,114</u>	<u>\$ 55,618</u>

See accountant's report and notes to financial statements

DOWNTOWN I & II CONDOMINIUMS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
(Deficiency) of revenue over expenses	\$ (2,344)	\$ (6,722)
Adjustments needed to reconcile (deficiency) of revenue over expenses to net cash provided by (used for) operating activities:		
Repair and replacement fund assessments	9,324	58,765
Transfer from repair and replacement fund	(8,850)	(54,125)
(Increase) in assessments receivable	(537)	-
Decrease in accounts receivable - other	70	207
(Increase) decrease in prepaid insurance	3,051	(1,738)
(Increase) in prepaid expenses	(112)	-
Increase in accounts payable	1,462	231
Increase (decrease) in income taxes payable	(242)	142
Increase (decrease) in prepaid assessments	(525)	34
Net cash provided by (used for) operating activities	<u>1,297</u>	<u>(3,206)</u>
Cash flows from investing activities:		
Purchase of investments	(2,356)	(51,687)
Redemption of investments	150	125
Net cash (used for) investing activities	<u>(2,206)</u>	<u>(51,562)</u>
Net (decrease) in cash	(909)	(54,768)
Cash at beginning of year	<u>19,434</u>	<u>74,202</u>
Cash at end of year	<u>\$ 18,525</u>	<u>\$ 19,434</u>
Income taxes paid in cash during year	<u>\$ 412</u>	<u>\$ 100</u>

See accountant's report and notes to financial statements

DOWNTOWN I & II CONDOMINIUMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

ORGANIZATION:

Downtown I & II Condominiums is comprised of fifty condominium units. The Condominiums Association has full power and responsibilities to operate and maintain the Condominiums for the benefit of the units and the owners including the power to hire employees, to make contracts, to make rules governing the Condominiums and to collect and disburse monies on behalf of the owners.

SIGNIFICANT ACCOUNTING POLICIES:

Method of Presentation - The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of the accrual method of accounting whereby revenues are recognized when earned rather than received and expenses are recognized when incurred rather than paid.

Investments - Investments consist of a money market fund in which fair value approximates cost and accumulated interest.

Repair and Replacement Fund - Funds are to be accumulated in a repair and replacement fund for future needs for repairs and replacements of common property components, and other purposes. In 2001 management conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The table included in this unaudited supplementary information is based on the study.

Income Taxes - In 2007 and 2006, the Association filed its federal income tax returns as a homeowner association under section 528 of the Internal Revenue Code, which exempts assessments collected from members, but taxes other types of revenue, net of related expenses, at a 30% rate.

Use of 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.

Cash Flows - For purposes of the statements of cash flows, checking and money market accounts, if any, for operating purposes are considered to be cash. Other cash, money markets and highly liquid debt instruments, if any, held as true investments or for repair and replacement fund purposes are considered investments.

DOWNTOWN I & II CONDOMINIUMS
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Administrative:		
Accounting/audit	\$ 925	\$ 900
Bank charges	150	137
Management fees	13,650	13,200
Miscellaneous administrative	181	180
Total administrative	14,906	14,417
Operating:		
Cleaning services	8,105	8,673
Electricity	2,537	2,212
Exterminating	874	1,476
Snow removal	2,501	1,210
Trash removal	8,268	7,241
Water and sewer	10,622	10,484
Total operating	32,907	31,296
Maintenance:		
Carpet/flooring	-	2,258
Chimney clean/repair	-	1,356
Common area maintenance	-	88
Electrical	349	794
Fire alarm systems	121	179
Lawn/landscape maintenance	562	4,429
Landscaping contract	14,893	820
Lighting repairs	125	4,649
Lock and keys	480	257
Miscellaneous maintenance	5,337	8,103
Roof repairs	4,115	765
Plumbing	1,507	1,076
Violations	150	150
Total maintenance	27,639	24,924
Taxes and Insurance:		
Provision for income tax	308	242
Insurance	18,333	16,955
Total taxes and insurance	18,641	17,197
TOTAL EXPENSES	\$ 94,093	\$ 87,834

DOWNTOWN I & II CONDOMINIUMS
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2007
(Unaudited)

The following is a tabulation of various common area building elements, their age, the estimated number of years of useful life remaining, and the 2001 replacement cost:

<u>Item</u>	<u>Age</u>	<u>Years Of Useful Life Remaining</u>	<u>Replacement Cost</u>
Concrete paving	14	10+	\$ 40,000
Floor structure	14	86+	750,000
Roofing	14	15*	43,200
Metal coping	14	6	4,500
Exterior masonry	14	86+	350,000
Windows	14	6	200,000
Exterior doors	14	6	23,000
Interior stairway finishes	1-14	5	18,000
Exterior painting	14	0	9,000
Common plumbing drains and supply pipes	14	16	18,000
Electric service gear and wiring	14	16	90,000
Building intercom system	14	15**	10,400

* Useful life based on re-roofing

** Useful life based on replacement of existing equipment and reusing existing wires