

**SMOKY RIDGE
MAINTENANCE ASSOCIATION, INC.**

INDEPENDENT AUDITOR'S REPORT
ON
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Smoky Ridge Maintenance Association, Inc.
Aurora, Colorado

I have audited the accompanying balance sheet of Smoky Ridge Maintenance Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses, and comprehensive income(loss), homeowners' equity and 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 Smoky Ridge Maintenance Association, Inc. as of December 31, 2010, 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.



Denver, Colorado
April 2, 2011

**SMOKY RIDGE
MAINTENANCE ASSOCIATION, INC.**

BALANCE SHEET

DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash and cash equivalents	\$ 36,626	\$ -	\$ 36,626
Accounts receivable - net of allowance for doubtful accounts of \$ 6,000	12,276		12,276
Prepaid insurance	1,578		1,578
Prepaid income tax	224	-	224
Interfund receivable (payable)	-	-	-
TOTAL ASSETS	\$ 50,704	\$ -	\$ 50,704
<u>LIABILITIES</u>			
Prepaid assessments	31,599		31,599
Accounts payable	2,335		2,335
TOTAL LIABILITIES	33,934	-	33,934
<u>CONTINGENCIES</u>			
<u>HOMEOWNERS' EQUITY</u>			
Working capital	5,140		5,140
Fund balance(deficit)	11,630	-	11,630
TOTAL HOMEOWNERS' EQUITY	16,770	-	16,770
TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$ 50,704	\$ -	\$ 50,704

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

**SMOKY RIDGE
MAINTENANCE ASSOCIATION, INC.**

**STATEMENT OF REVENUES AND EXPENSES
AND COMPREHENSIVE INCOME(LOSS)**

FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>REVENUES</u>			
Homeowner assessments	\$ 107,328		\$ 107,328
Late fees and other fines	7,417		7,417
Interest	21		21
TOTAL REVENUES	114,766	-	114,766
<u>EXPENSES</u>			
Landscaping and grounds maintenance	42,100		42,100
Management	24,345		24,345
Water and sewer	22,954		22,954
Administrative	10,494		10,494
Professional fees	7,274		7,274
Bad debt	7,097		7,097
Snow removal	6,898		6,898
Insurance	3,644		3,644
Gas and electric	1,067		1,067
Income taxes	-		-
TOTAL EXPENSES	125,873	-	125,873
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(11,107)	-	(11,107)
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized holding gain(loss) on available-for-sale securities	-	-	-
COMPREHENSIVE INCOME (LOSS)	\$ (11,107)	\$ -	\$ (11,107)

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

**SMOKY RIDGE
MAINTENANCE ASSOCIATION, INC.**

STATEMENT OF CHANGES IN HOMEOWNERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
FUND BALANCE, BEGINNING OF YEAR	\$ (1,989)	\$ 24,726	\$ -	\$ 22,737
Excess (deficit) of revenues over expenses	(11,107)	-	-	(11,107)
Interfund transfers	24,726	(24,726)	-	-
FUND BALANCE, END OF YEAR	<u>\$ 11,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,630</u>

The accompanying notes are an integral part of the financial statements

**SMOKY RIDGE
MAINTENANCE ASSOCIATION, INC.**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Excess of revenues over expenses	\$ (11,107)	\$ -	\$ (11,107)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase)decrease in accounts receivable	(4,663)		(4,663)
(Increase)decrease in prepaid insurance	(64)		(64)
(Increase)decrease in prepaid income tax	-		-
Increase(decrease) in prepaid assessments	1,023		1,023
Increase(decrease) in accounts payable	(3,344)		(3,344)
Interfund transfers	32,353	(32,353)	-
Net cash provided(used) by operating activities	14,198	(32,353)	(18,155)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Redeem certificates of deposit	-	32,353	32,353
Net cash provided by investing activities	-	32,353	32,353
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>			
	-	-	-
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	14,198	-	14,198
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	22,428	-	22,428
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 36,626	\$ -	\$ 36,626
SUPPLEMENTAL INFORMATION:			
Income taxes paid	\$ -	\$ -	\$ -
Interest expense paid	\$ -	\$ -	\$ -

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

SMOKY RIDGE MAINTENANCE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 1 - Organization

Smoky Ridge Maintenance Association (the Association), a not-for-profit corporation organized under the laws of Colorado in 1992, was formed for the purpose of providing for the administration, maintenance, preservation and architectural control of the residence lots and common area located within the development and to promote the health, safety and welfare of the residents. The Association consists of owners of residential units located in Arapahoe County, Colorado. The objectives of the Association include maintaining the development as a prime residential ownership area of the highest quality and value and enhancing and protecting its value, desirability and attractiveness.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

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 in accordance with principles of fund accounting. Fund accounting requires that resources for various purposes be classified for accounting and reporting purposes into funds established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by fund group.

The assets, liabilities and fund balances of the Association are reported in two self-balancing fund groups as follows:

Operating fund includes unrestricted and restricted resources and represents the portion of expendable funds that is available for support of annual maintenance and operational activities.

Replacement fund represents resources collected and expended for, or designated by the Board for, the major repair or replacement of common area property.

Recognition of Assets and Depreciation Policy

The Association owns common area property acquired from the developer.

SMOYM RIDGE MAINTENANCE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 2 – Summary of Significant Accounting Policies (continued)

As such, the original cost of the common property is not reflected in these financial statements. In addition, costs incurred subsequent to the original developer's transfer, including replacements, improvements and maintenance are reflected as an expense of the Association. The Association's policy for recognition of common property as assets is to recognize (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members/nonmembers usage.

Property and equipment, when acquired, will be recorded at cost. Depreciation will be computed using the straight-line method over the estimated useful lives (5 –7 years) of the respective assets.

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 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.

Financial Instruments

Unless otherwise disclosed, the carrying amount of financial instruments approximates their fair value because of their short-term nature.

Note 3 - Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Association's cash and cash equivalents at December 31, 2010 consisted of a checking account balance of \$36,626 in the operating fund.

SMOKY RIDGE MAINTENANCE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 4 - Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable - homeowners at December 31, 2010 represent assessments, late fees and other charges due from homeowners. The Association's Declaration of Covenants, Conditions and Restrictions provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the homeowner, and obtaining judgment on other assets of the homeowner.

The annual budget and assessments of members are determined by the Board of Directors. The annual assessment for the Association was \$107,328 of which \$-0- was designated to the replacement fund. Any excess assessments at year-end are retained by the Association for use in the following year.

The Association's Declaration of Covenants, Conditions and Restrictions provides authorization to retain legal counsel and place liens on the properties of Association members whose assessments are thirty days or more delinquent. In the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will prevail in most instances. Additionally, the Association provides an allowance for doubtful accounts for those assessments that ultimately may not be collected.

Note 5 - Income Taxes

For 2010, the Association elected to file its income tax return as a homeowners association in accordance with Internal Revenue Code Section 528 in an effort to minimize its tax liability. Non-exempt income, which normally consists of interest income and related expenses, is taxable at regular federal corporate rates of approximately 30 percent and state rates of 4.63 percent under this method. For income tax purposes, assessments levied for the restricted reserve fund and placed in separate, restricted bank accounts are considered to be held in trust for the owners, and are therefore not taxable. Related reserve expenditures also do not enter into the calculation of taxable income.

SMOKY RIDGE MAINTENANCE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 6 - Future Major Repairs and Replacements

The Association's governing documents require that a Replacement Fund and restricted cash accounts be established for major repairs and replacements of common property and the Association has implemented these procedures. Accumulated funds are held in separate savings or investment accounts and generally are not available for expenditures for normal operations.

The Association engaged an independent consulting firm to conduct a reserve study of its various common elements in an effort to estimate the remaining useful lives and the replacement costs of the components of common property. The results are reflected in the Supplementary Information on Future Major Repairs and Replacements (unaudited).

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 7 - Contingencies

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

SMOKY RIDGE MAINTENANCE ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2010

(UNAUDITED)

The Association's board of directors an independent consulting firm to conduct a reserve study in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The board approved updating the report in 2008. The estimates were based on current replacement costs adjusted for anticipated costs of inflation. Funding requirements consider an annual inflation rate of 2.8%.

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

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs
Fences – Wood	6	\$ 1,119,130
Irrigation System	3-14	309,524
Monuments and Pillars	4	9,438
Reserve study update		1,800
		<u>\$ 1,439,892</u>

The Reserve fund balance at December 31, 2010 is \$-0-.