

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

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

Year Ended December 31, 2010

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Trailmark Homeowners Association, Inc.  
Denver, Colorado

I have audited the accompanying balance sheet of Trailmark Homeowners Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses, and changes in fund balance 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 Trailmark Homeowners 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  
February 11, 2011

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

BALANCE SHEET

DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 98,066	\$ 493,551	\$ 591,617
Assessments receivable, net of allowance for doubtful accounts of \$4,500	9,833		9,833
Prepaid expenses	1,971		1,971
Prepaid income tax	877	-	877
Interfund receivable(payable)	-	-	-
<b>TOTAL ASSETS</b>	<b>110,747</b>	<b>493,551</b>	<b>604,298</b>
<b><u>LIABILITIES</u></b>			
Accounts payable	9,982		9,982
Assessments received in advance	48,299		48,299
<b>TOTAL LIABILITIES</b>	<b>58,281</b>	<b>-</b>	<b>58,281</b>
<b><u>CONTINGENCIES</u></b>			
	-	-	-
<b><u>FUND BALANCE:</u></b>			
Fund balance(deficit)	52,466	493,551	546,017
<b>TOTAL FUND BALANCE</b>	<b>52,466</b>	<b>493,551</b>	<b>546,017</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 110,747</b>	<b>\$ 493,551</b>	<b>\$ 604,298</b>

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

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUES</b>			
Member assessments	\$ 307,200		\$ 307,200
Late charges and other fees	10,345		10,345
Newsletter revenue	785		785
Interest income	-	3,207	3,207
<b>TOTAL REVENUES</b>	<b>318,330</b>	<b>3,207</b>	<b>321,537</b>
<b>EXPENSES</b>			
Trash removal	121,181		121,181
Grounds maintenance	48,147	27,215	75,362
Management fees	38,833		38,833
Water and sewer	18,426		18,426
Administrative	16,642		16,642
Social	13,052		13,052
Security	9,375		9,375
Professional fees	6,063	375	6,438
Newsletter	5,788		5,788
Bad debt	5,701		5,701
Insurance	1,543		1,543
Gas and electric	1,165		1,165
Income tax	31		31
<b>TOTAL EXPENSES</b>	<b>285,947</b>	<b>27,590</b>	<b>313,537</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>32,383</b>	<b>(24,383)</b>	<b>8,000</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	<b>20,083</b>	<b>517,934</b>	<b>538,017</b>
<b>FUND BALANCE, END OF YEAR</b>	<b>\$ 52,466</b>	<b>\$ 493,551</b>	<b>\$ 546,017</b>

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

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
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<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess of revenues over expenses	\$ 32,383	\$ (24,383)	\$ 8,000
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase)decrease in accounts receivable	9,796		9,796
(Increase)decrease in prepaid expenses	205		205
Increase(decrease) in accounts payable	(18,400)	(3,693)	(22,093)
Increase(decrease) in assessments received in advance	1,523		1,523
Increase(decrease) in income tax payable	(31)		(31)
	-----	-----	-----
<b>Net Cash Provided by Operating Activities</b>	<b>25,476</b>	<b>(28,076)</b>	<b>(2,600)</b>
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
	-	-	-
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
	-	-	-
	-----	-----	-----
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>25,476</b>	<b>(28,076)</b>	<b>(2,600)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>72,590</b>	<b>521,627</b>	<b>594,217</b>
	-----	-----	-----
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 98,066</b>	<b>\$ 493,551</b>	<b>\$ 591,617</b>
	=====	=====	=====
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash paid during the year for income taxes	\$ 100	\$ -	\$ 100
Cash paid during the year for interest	\$ -	\$ -	\$ -

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

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**Note 1 - Organization**

Trailmark Homeowners Association, Inc. (the Association), a not-for-profit corporation organized under the laws of Colorado in 1997, was formed for the purpose to manage, maintain and preserve the common property of the community on behalf of its members. The Association is located in Colorado and consists of owners of residential units.

**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.

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 2 – Summary of Significant Accounting Policies (continued)**

**Recognition of Assets**

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.

**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.

**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.

**Note 4 - Member Assessments**

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

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 4 – Member Assessments (continued)**

The annual assessment for the Association was \$307,200 of which \$-0- was transferred to the replacement fund. Any excess assessments at year-end are retained by the Association for use in the following year. The annual budget and owners' assessments are determined by the Board of Directors.

The Association's Declaration of Covenants provides authorization to retain legal counsel and place liens on the properties of Association members whose assessments become 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 - Future Major Repairs and Replacements**

The Association's governing documents require that a Replacement Fund and corresponding cash accounts be established for major repairs and replacements of common property and funded out of the regular monthly assessments.

The Board has conducted a reserve study to estimate the remaining useful lives and replacements costs of the elements of common property. The Association is funding for such major repairs and replacements over the estimated remaining useful lives and considering previous amounts accumulated. Amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements because actual expenditures and income of the Replacement Fund may vary from the estimated amounts and the variation may be material. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

**Note 6 - Income Taxes**

For 2010, the Association elected to file its income tax return as a homeowners association under Internal Revenue Code Section 528. The Association provided income taxes on its non-exempt function income, which consisted primarily of investment income.

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

**Note 7 – Contingencies**

The Association is a party to various legal actions normally associated with homeowners 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.

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS**

DECEMBER 31, 2010

(UNAUDITED)

An independent engineer conducted a study to estimate the remaining useful lives and repair and replacement costs of the components of the Association's common property. The following information is based on that study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Repair and Replacement Costs</u>
Wood fencing – restrain	0 – 3	\$ 76,775
Monument – rebuild	15	9,750
Rock signs – repair	6	15,500
Wood fencing – replace	11 – 14	382,475
Rock column structures – replace	6	5,750
Irrigation system - rebuild	7	55,000
Irrigation timeclocks	1 – 11	15,500
		-----
		\$560,750
		=====

The Association's reserve fund balance at December 31, 2010 is \$ 493,551.

The Association's complete, independently prepared reserve study is available for viewing and downloading at the Trailmark HOA website.