

**TRAILMARK  
HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**And**

**INDEPENDENT AUDITORS' REPORT**

**For The Year Ended December 31, 2006**

Trailmark Homeowners Association, Inc.  
 Balance Sheet  
 December 31, 2006

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
<b>ASSETS:</b>			
Cash:			
Checking and money market accounts	\$30,327	\$307,553	\$337,880
Certificates of deposit		150,426	150,426
Total cash	<u>30,327</u>	<u>457,979</u>	<u>488,306</u>
Accrued interest		608	608
Accounts receivable - members, net of an allowance for doubtful accounts of \$2,400	7,700		7,700
Prepaid expenses	13,165		13,165
Interfund receivable (payable)	<u>109,754</u>	<u>(109,754)</u>	<u>0</u>
	<u><b>\$160,946</b></u>	<u><b>\$348,833</b></u>	<u><b>\$509,779</b></u>
<b>LIABILITIES:</b>			
Accounts payable	\$12,780		\$12,780
Income tax payable	1,288		1,288
Deferred revenue - prepaid assessments	27,622		27,622
	<u>41,690</u>	<u>0</u>	<u>41,690</u>
<b>MEMBERS' EQUITY:</b>			
Fund balances	<u>119,256</u>	<u>\$348,833</u>	<u>468,089</u>
	<u><b>\$160,946</b></u>	<u><b>\$348,833</b></u>	<u><b>\$509,779</b></u>

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

Trailmark Homeowners Association, Inc.  
Statement of Revenues and Expenditures and Changes in Fund Balances  
For the Year Ended December 31, 2006

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
<b>REVENUES:</b>			
Assessments - members (Note 3)	\$307,104		\$307,104
Budgeted allocation of assessments to reserve fund	(2,965)	\$2,965	0
Legal fees, late fees and other member charges	13,694		13,694
Other income	15,659		15,659
Interest		7,916	7,916
	<u>333,492</u>	<u>10,881</u>	<u>344,373</u>
<b>EXPENDITURES:</b>			
<b>Administrative</b>			
Management fees	\$28,800		\$28,800
Social	22,038		22,038
Legal and audit fees	10,322		10,322
Bad debt	2,899		2,899
Income tax	1,288		1,288
Other administrative costs	29,557	\$15	29,572
<b>Grounds</b>			
Trash removal	71,376		71,376
Common area improvement	53,305		53,305
Landscape contract	28,026		28,026
Snow removal	8,277		8,277
Other grounds expenses	9,675		9,675
<b>Utilities</b>			
Water and sewer	32,065		32,065
Gas and electric	970		970
	<u>298,598</u>	<u>15</u>	<u>298,613</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>34,894</b>	<b>10,866</b>	<b>45,760</b>
Working capital contributions	1,472		1,472
Fund balances - beginning of year	<u>82,890</u>	<u>337,967</u>	<u>420,857</u>
<b>Fund balances - end of year</b>	<b><u>\$119,256</u></b>	<b><u>\$348,833</u></b>	<b><u>\$468,089</u></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, 2006**

	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess (deficiency) of revenues over expenditures	\$34,894	\$10,866	\$45,760
Adjustments to reconcile excess (deficiency) of revenues over expenditures to net cash provided by (used in) operating activities:			
(Increase) decrease in accounts receivable	23,313		23,313
(Increase) decrease in prepaid expenses	(3,560)		(3,560)
Change in interfund receivable (payable)	(200,404)	200,404	0
Increase (decrease) in accounts payable	2,513		2,513
Increase (decrease) in income taxes payable	1,288		1,288
Increase (decrease) in prepaid assessments	22,916		22,916
Total adjustments	<u>(153,934)</u>	<u>200,404</u>	<u>46,470</u>
Net cash provided by (used in) operating activities	<u>(119,040)</u>	<u>211,270</u>	<u>92,230</u>
Working capital contributions	1,472		1,472
Cash at beginning of year	<u>147,895</u>	<u>246,709</u>	<u>394,604</u>
<b>Cash at end of year</b>	<b><u><u>\$30,327</u></u></b>	<b><u><u>\$457,979</u></u></b>	<b><u><u>\$488,306</u></u></b>
<u>Supplemental Disclosure of Cash Flows Information:</u>			
Income taxes paid during the year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
Interest paid during the year	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

**Trailmark Homeowners Association, Inc.**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2005**  
**Unaudited**

An independent engineer conducted a study in 2004 to estimate the remaining useful lives and the repair and replacement costs of the components of common property through 2034. The following information is based on the study and presents significant information about the components of common property. See the reserve study for additional detail regarding the timing and frequency of the repairs and replacements for the various elements of the study. Some of the items in the following table may have already been repaired or replaced as of the date of this report.

<b>Activity / Component</b>	<b>Estimated Remaining Useful Lives (Years) at Date of Study</b>	<b>Next Scheduled Major Repair/ Replacement</b>	<b>Estimated Future Repair and Replacement Costs to be Incurred Through 2034</b>
Fence maintenance	0 - 30	2004	\$378,018
Fence replacement	12 - 28	2016	292,100
Landscape improvements	6 - 26	2010	166,822
Concrete repairs	2 - 27	2006	265,542
Total			\$1,102,482
Reserve fund balance at December 31, 2006			\$348,833

**Trailmark Homeowners Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**NOTE 1. ORGANIZATION**

Trailmark Homeowners Association, Inc. ("The Association") is a residential management association incorporated on February 20, 1997 as a Colorado nonprofit corporation. The Association was formed to maintain and preserve the common property (primarily fences, landscaping, and concrete sidewalks) on behalf of its members. The Association is located in Jefferson County, Colorado and consists of the owners of 801 residences. The Members elect the Association's Board of Directors. The Board volunteers its time to manage the affairs of the Association.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

BASIS OF ACCOUNTING

The accompanying financial statements and the related income tax returns have been prepared on the accrual basis.

FUND ACCOUNTING

The accounts of the Association are maintained in accordance with fund accounting whereby resources are classified for reporting purposes into funds with specified activities or purposes. The Association's two funds are operating and reserve. The operating fund is used to account for the general operations of the Association. The reserve fund is used to account for money set aside and related expenditures for major repairs and replacements.

DELINQUENT ASSESSMENTS

The Association's policy is to enforce collection of assessments by retaining legal counsel and by placing liens on the properties of delinquent members.

COMMON PROPERTY

Consistent with preferable accounting for residential associations the Association's real property and common areas are not capitalized in these financial statements. That property is commonly owned by the resident-owners, cannot be detached from the development and sold, and is not used by the Association to generate cash.

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, liabilities, revenues and expenses. Such estimates can also affect the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

WORKING CAPITAL CONTRIBUTIONS

The Association's governing documents require each homeowner to pay a working capital contribution of two times the monthly assessment rate in effect at the time of their closings. Those working capital contributions have been commingled with other Association operating fund resources and are thus included in operating fund equity.

**Trailmark Homeowners Association, Inc.**  
**Notes to Financial Statements**  
**December 31, 2006**

**NOTE 3. ASSESSMENTS**

Assessments are determined by the Board of Directors upon approval of the annual budget and are intended to meet both the normal operating costs of the Association and the costs of estimated future major repairs or capital improvements. Assessments to homeowners were \$96 per quarter during 2006. Assessments for the year included amounts designated in the Association's budget for the reserve fund as discussed in Note 4 below. The Association may levy special assessments to cover costs as described in the Association's governing documents.

**NOTE 4. RESERVE FUND - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents require that a reserve fund be accumulated for the future repair and replacement of the major components of the Association's common property. The Association's reserve study is a plan for the accumulation and disposition of reserve fund resources. The study provides estimates of the remaining useful lives of the components of the Association's common property. The study also provides estimates of annual additions to the reserve fund and of the periodic costs to repair and replace the common property. Information based on the Association's reserve study is presented on an unaudited page of this report captioned "Supplementary Information on Future Major Repairs and Replacements."

The Association's budget for 2006 allocated \$2,965 of assessment revenues to the reserve fund. The budgeted allocation is included in reserve fund revenues in the Statement of Revenues and Expenditures and Changes in Fund Balances for the year. Net transfers to the reserve fund were \$203,369. The prior year financial statements showed that the operating fund owed the reserve fund \$90,650. That balance was eliminated by the transfers to reserves in excess of the budgeted amount. The remaining transfers to the reserve fund (\$109,754) is reflected as the year end reserve fund payable to the operating fund.

Future allocations of assessment revenues to the reserve fund may vary from the amounts detailed in the reserve study. Further, the timing and amount of actual reserve fund expenditures may vary from the reserve study's estimates. These variations may be material. Therefore, the reserve fund may not be adequate to meet the costs of all future major repairs and replacements. If additional amounts are needed, the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. Any of these steps, or a combination of these steps, may be required to meet the Association's future repair and replacement needs.

**NOTE 5. FEDERAL AND STATE CORPORATE INCOME TAXES**

The Association must file annual federal and Colorado income tax returns. The Association files its federal income tax return as a homeowners' association (Form 1120-H) in accordance with Internal Revenue Code Section 528. Under Section 528 the Association is not taxed on assessment revenues or on other income derived from members and used to serve the Association's exempt purposes. Those exempt purposes generally include the maintenance, management and care of Association property. However, under Section 528 certain income, such as interest, is deemed to be related to nonexempt purposes. Nonexempt income, net of expenses allocable to that income, is taxable for both federal and Colorado tax purposes. The Association had no net taxable income for federal or Colorado purposes for the year.