

***RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION

**DECEMBER 31, 2011 and 2010**

***RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION

**DECEMBER 31, 2011 and 2010**

***L.R. COMPTON II, LLC***  
**CERTIFIED PUBLIC ACCOUNTANTS**  
3595 SOUTH TELLER STREET, SUITE 402  
LAKEWOOD, COLORADO 80235

# ***RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.***

**DECEMBER 31, 2011 and 2010**

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***L.R. COMPTON II, LLC***

**Certified Public Accountants**

3595 S. Teller Street, Suite 402  
Lakewood, Colorado 80235  
(303) 980-6232

***Independent Auditor's Report***

Members of the Board of Directors  
River Rock Condominium Owners Association, Inc.  
Denver, Colorado

We have audited the accompanying balance sheets of River Rock Condominium Owners Association, Inc. as of December 31, 2011 and 2010 and the related statements of revenue, expenditures and changes in the operating fund, and the revenue, expenditures and changes in the replacement fund and cash flows of the operating fund 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 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. 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 River Rock Condominium Owners Association, Inc. as of December 31, 2011 and 2010 and the results of its operations of the operating fund, the replacement fund and its cash flows of the operating fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

May 3, 2012



Auditor in Charge:  
Lee R. Compton II, CPA

**RIVER ROCK CONDOMINIUM**  
**OWNERS ASSOCIATION, INC.**  
BALANCE SHEETS

|                                               | <u>DECEMBER 31,</u>      |                          |
|-----------------------------------------------|--------------------------|--------------------------|
|                                               | <u>2011</u>              | <u>2010</u>              |
| <b>ASSETS</b>                                 |                          |                          |
| Cash                                          | \$ 14,701                | \$ 856                   |
| Cash - Replacement Fund                       | 50,943                   | 151,547                  |
| Certificates of Deposit, Replacement Fund     | 75,000                   | -                        |
| Accounts Receivable - Homeowners, Net         | 27,142                   | 8,402                    |
| Accrued Interest Receivable, Replacement Fund | 84                       | -                        |
| Prepaid Items                                 | -                        | 1,206                    |
| Replacement Fund due from Operating Fund      | <u>183,917</u>           | <u>162,401</u>           |
| <b>TOTAL ASSETS</b>                           | <b><u>\$ 351,787</u></b> | <b><u>\$ 324,412</u></b> |
| <b>LIABILITIES and FUND BALANCES</b>          |                          |                          |
| <b>LIABILITIES</b>                            |                          |                          |
| Accounts Payable                              | \$ 20,495                | \$ 10,768                |
| Prepaid Assessments                           | 5,807                    | 3,910                    |
| Operating Fund due to Replacement Fund        | <u>183,917</u>           | <u>162,401</u>           |
| <i>Total Liabilities</i>                      | 210,219                  | 177,079                  |
| <b>FUND BALANCES</b>                          |                          |                          |
| Operating Fund (Accumulated Deficit)          | (168,376)                | (166,615)                |
| Replacement Fund                              | <u>309,944</u>           | <u>313,948</u>           |
| <i>Total Fund Balances</i>                    | <u>141,568</u>           | <u>147,333</u>           |
| <b>TOTAL LIABILITIES and FUND BALANCES</b>    | <b><u>\$ 351,787</u></b> | <b><u>\$ 324,412</u></b> |

See Notes to Financial Statements

**RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.**

STATEMENTS of REVENUE, EXPENDITURES  
and CHANGES in the OPERATING FUND (ACCUMULATED DEFICIT)

|                                                              | <b><u>YEARS ENDED DECEMBER 31,</u></b> |                            |
|--------------------------------------------------------------|----------------------------------------|----------------------------|
|                                                              | <b><u>2011</u></b>                     | <b><u>2010</u></b>         |
| <b>REVENUE</b>                                               |                                        |                            |
| Assessments                                                  | \$ 384,000                             | \$ 355,200                 |
| Other Member Charges                                         | <u>15,251</u>                          | <u>15,301</u>              |
| Total Revenue                                                | 399,251                                | 370,501                    |
| <b>EXPENDITURES</b>                                          |                                        |                            |
| <b>Maintenance and Supplies</b>                              |                                        |                            |
| Grounds                                                      | 62,612                                 | 66,593                     |
| Buildings                                                    | 40,418                                 | 73,670                     |
| Pool/Hot Tub                                                 | 7,781                                  | 5,998                      |
| Snow Removal                                                 | <u>18,551</u>                          | <u>14,829</u>              |
| Total Maintenance and Supplies                               | 129,362                                | 161,090                    |
| <b>Operating Expenses</b>                                    |                                        |                            |
| Transfer of Assessments to Replacement Fund                  | 64,556                                 | 54,356                     |
| Utilities                                                    | <u>113,208</u>                         | <u>106,562</u>             |
| Total Operating Expenses                                     | 177,764                                | 160,918                    |
| <b>Administrative Expenses</b>                               |                                        |                            |
| Bad Debts                                                    | (4,665)                                | 13,993                     |
| Insurance                                                    | 70,198                                 | 70,155                     |
| Management Fees                                              | 22,200                                 | 21,600                     |
| Office and Communications                                    | 2,410                                  | 2,223                      |
| Professional Fees                                            | <u>3,743</u>                           | <u>4,384</u>               |
| Total Administrative Expenses                                | <u>93,886</u>                          | <u>112,355</u>             |
| Total Expenditures                                           | <u>401,012</u>                         | <u>434,363</u>             |
| <b>EXCESS (DEFICIT) of REVENUE<br/>OVER EXPENDITURES</b>     | <b>(1,761)</b>                         | <b>(63,862)</b>            |
| Operating Fund (Accumulated Deficit),<br>Beginning of Year   | <u>(166,615)</u>                       | <u>(102,753)</u>           |
| <b>OPERATING FUND (ACCUMULATED<br/>DEFICIT), End of Year</b> | <b><u>\$ (168,376)</u></b>             | <b><u>\$ (166,615)</u></b> |

See Notes to Financial Statements

**RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.**

STATEMENTS of REVENUE, EXPENDITURES  
and CHANGES in the REPLACEMENT FUND

|                                                          | <b><u>YEARS ENDED DECEMBER 31,</u></b> |                          |
|----------------------------------------------------------|----------------------------------------|--------------------------|
|                                                          | <b><u>2011</u></b>                     | <b><u>2010</u></b>       |
| <b>REVENUE</b>                                           |                                        |                          |
| Assessments Transferred from                             |                                        |                          |
| Operating Fund                                           | \$ 64,556                              | \$ 54,356                |
| Interest                                                 | <u>111</u>                             | <u>74</u>                |
| <i>Total Revenue</i>                                     | <u>64,667</u>                          | <u>54,430</u>            |
| <b>EXPENDITURES</b>                                      |                                        |                          |
| <b>Major Maintenance</b>                                 |                                        |                          |
| Asphalt                                                  | 19,772                                 | 18,485                   |
| Fence & Gates                                            | 7,649                                  | -                        |
| Landscaping                                              | 17,850                                 | -                        |
| Plumbing                                                 | 23,260                                 | -                        |
| Security Equipment                                       | <u>-</u>                               | <u>5,665</u>             |
| <i>Total Major Maintenance</i>                           | <u>68,531</u>                          | <u>24,150</u>            |
| <b>Administrative Expenses</b>                           |                                        |                          |
| Investment Fee                                           | <u>140</u>                             | <u>-</u>                 |
| <i>Total Administrative Expenses</i>                     | <u>140</u>                             | <u>-</u>                 |
| <i>Total Expenditures</i>                                | <u>68,671</u>                          | <u>24,150</u>            |
| <b>EXCESS (DEFICIT) of REVENUE<br/>OVER EXPENDITURES</b> | <b>(4,004)</b>                         | <b>30,280</b>            |
| Replacement Fund, Beginning of Year                      | <u>313,948</u>                         | <u>283,668</u>           |
| <b>REPLACEMENT FUND, End of Year</b>                     | <b><u>\$ 309,944</u></b>               | <b><u>\$ 313,948</u></b> |

*See Notes to Financial Statements*

**RIVER ROCK CONDOMINIUM**  
**OWNERS ASSOCIATION, INC.**  
STATEMENTS of CASH FLOWS, OPERATING FUND

|                                                | <b><u>YEARS ENDED DECEMBER 31,</u></b> |                             |
|------------------------------------------------|----------------------------------------|-----------------------------|
|                                                | <b><u>2011</u></b>                     | <b><u>2010</u></b>          |
| <b><i>CASH PROVIDED (USED) by</i></b>          |                                        |                             |
| <b><i>OPERATING ACTIVITIES</i></b>             |                                        |                             |
| Excess (Deficit) of Revenue                    |                                        |                             |
| Over Expenditures                              | \$ (1,761)                             | \$ (63,862)                 |
| <i>Adjustments to Reconcile the Excess of</i>  |                                        |                             |
| <i>Revenue over Expenditures to Net Cash</i>   |                                        |                             |
| <i>Provided (Used) by Operating Activities</i> |                                        |                             |
| Assessments Receivable - Homeowners, Net       | (18,740)                               | 2,650                       |
| Prepaid Items                                  | 1,206                                  | (556)                       |
| Accounts Payable                               | 9,727                                  | (10,914)                    |
| Prepaid Assessments                            | 1,897                                  | (3,204)                     |
| Operating Fund due to Replacement Fund         | <u>21,516</u>                          | <u>76,677</u>               |
| <i>Total Cash Provided (Used) by</i>           |                                        |                             |
| <i>Operating Activities</i>                    | <u>13,845</u>                          | <u>791</u>                  |
| <b><i>NET INCREASE in CASH</i></b>             | <b>13,845</b>                          | <b>791</b>                  |
| <br>Cash, Beginning of Year                    | <br><u>856</u>                         | <br><u>65</u>               |
| <b><i>CASH, End of Year</i></b>                | <b><u><u>\$ 14,701</u></u></b>         | <b><u><u>\$ 856</u></u></b> |

*See Notes to Financial Statements*

***RIVER ROCK CONDOMINIUM***  
***OWNERS ASSOCIATION, INC.***  
NOTES to FINANCIAL STATEMENTS  
DECEMBER 31, 2011 and 2010

**HISTORY and SIGNIFICANT ACCOUNTING POLICIES**

**History**

River Rock Condominium Owners Association, Inc. (the Association) was organized and incorporated under the provisions of the Colorado Nonprofit Corporation Act on June 1, 1997 to manage the operations of the River Rock Condominiums. The Association is a membership corporation without certificates or shares of stock, and consists of 160 residential units in 10 buildings, owners of which are the members. Although more than one person or entity may own a unit, only one vote per unit is allowed at Association meetings.

The Association is charged with the responsibility for the care, maintenance, preservation and architectural control of the unit exteriors and common areas as well as promoting the health, safety and welfare of the residents within the jurisdiction of the Association.

The powers and privileges of the Association are enumerated in its By-Laws and the Declaration of Covenants, Conditions and Restrictions (CC&R's) that provide for an elected Board of Directors to administer the responsibilities above as well as perform the fiscal duties required by a membership corporation. The Board may adopt a set of rules and regulations to assist in the operation of the project. It may further hire and delegate day to day responsibility for the operations to a professional association management company.

**Significant Accounting Policies**

**Method of Accounting**

River Rock Condominium Owners Association, Inc.'s financial statements are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities as prescribed in its governing documents.

**Accounts Receivable - Homeowners, Net**

The accounts receivable from homeowners arise from monthly dues/assessments; late charges; fines imposed for infractions of the CC&R's, By-Laws or Rules and Regulations, and legal fees incurred in the collection of overdue accounts. These balances from ordinary Association activities are second in seniority only to any first mortgage on the property, and in management's opinion, are collectible in full. However, due to the expense and time that may be incurred in the collection of these receivables, the Board has elected to create an allowance for uncollectible accounts receivable of \$10,500 and \$20,760 in 2011 and 2010 respectively.

***RIVER ROCK CONDOMINIUM***  
***OWNERS ASSOCIATION, INC.***  
NOTES to FINANCIAL STATEMENTS  
**DECEMBER 31, 2011 and 2010**  
(Continued)

**HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Due to/from Accounts**

These receivable/payable accounts arise from normal business activities and represent monies not transferred between the funds at year-end.

**Prepaid Items**

The River Rock Condominium Owners Association, Inc. may acquire service contracts such as insurance on an annual basis or pay certain expenses in advance. The future applicability of these purchases is recorded as prepaid items and amortized in the appropriate accounting period.

**Prepaid Assessments**

When members pay their dues/assessments in advance of the period for which they are billed, the Association records it as a liability and recognizes the income in the appropriate accounting period.

**Fund Balances**

River Rock Condominium Owners Association, Inc. records its fiscal activities in two funds, defined as:

**Operating Fund**

Normal and usual operating income and expenses, as directed by the Board and set by the annual budget are recorded in this fund.

**Replacement Fund**

An adequate replacement reserve shall be accumulated from the annual assessments to provide for the major maintenance and replacement of common areas of the Association. The common areas consist primarily of the foundations, the facades and roofs of the buildings; the landscaping and irrigation; the pool; the clubhouse, and the streets and sidewalks of the Association. The budgeted assessments and anticipated expenditures from this fund are based on a 1999 study by an independent engineering firm.

***RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.***

NOTES to FINANCIAL STATEMENTS  
**DECEMBER 31, 2011 and 2010**  
(Continued)

**HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue**

Assessments, as set by the annual budget to be collected from homeowners, represent the major source of revenue for the Association. Additionally, assessments paid in arrears incur a late charge and should legal collection steps become necessary the legal fees are recorded with the late charges as other income. Also, fines imposed for infractions under the rules and regulations are recorded as other income.

**Income Taxes**

Even though River Rock Condominium Owners Association, Inc. is incorporated as a nonprofit entity and is considered tax exempt under Section 528 of the Internal Revenue Code, this exemption applies only to revenue and expenses collected from or spent on behalf of members based on their membership in the Association. Earnings from invested funds, such as interest and dividends, etc., or from non-member activities is subject to either Section 528, Federal Homeowner Tax or standard Corporate Tax for both State and Federal filing purposes. In the years 2011 and 2010, the Association filed a standard corporate return; However, no income taxes were due. The Association has a cumulative tax loss carryforward of \$43,851 and \$34,231 respectively.

**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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fair Value of Financial Instruments**

The carrying value of cash, short-term payables and long-term debt approximate their fair value at December 31, 2011 and 2010.

**Reclassifications**

Certain accounts presented in the December 31, 2010 financial statements have been reclassified to conform to the December 31, 2011 format.

**RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.**

NOTES to FINANCIAL STATEMENTS  
**DECEMBER 31, 2011 and 2010**  
(Continued)

**NOTE 2 Replacement Fund**

At December 31, 2011 and 2010, the Association had a balance of \$309,944 and \$313,948 in its Replacement Fund. The general restriction on this fund is for major maintenance of and/or replacement of the Association's common areas in accordance with the *Reserve Planning Notebook with Engineering Financial Reserve Analysis*, August 1999, prepared by an independent engineering firm. This study projects the probable major maintenance and replacement capital needs of the Association over the succeeding twenty years, based on an investigation of the property in July 1999. The study includes 4.5% estimated earnings and 6% inflation on the forecasted needs of the Replacement Fund.

The Board is charged with the responsibility of accumulating monies in the Replacement Fund based on the estimates discussed above. Actual expenditures may vary from the schedule of 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 replacements. If additional Replacement Fund expenditures are required, the Association has the right, subject to membership approval, to increase the regular assessments, pass special assessments or delay major repairs and replacements until funds are available.

**NOTE 3: Subsequent Events**

For the year ended December 31, 2011, the Association has evaluated subsequent events for potential recognition and disclosure through May 3, 2012, the date of the financial statement issuance.

***RIVER ROCK CONDOMINIUM  
OWNERS ASSOCIATION, INC.***

SUPPLEMENTARY INFORMATION

**DECEMBER 31, 2011**

***L. R. COMPTON II, LLC***

**Certified Public Accountants**

3595 S. Teller Street, Suite 402  
Lakewood, Colorado 80235  
(303) 980-6232

***Independent Auditor's Report on  
Supplementary Information***

Members of the Board of Directors  
River Rock Condominium Owners Association, Inc.  
Aurora, Colorado

Our report on our audits of the basic financial statements of River Rock Condominium Owners Association, Inc. for 2011 and 2010 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole.

The *Schedule of Actual Results Versus Budgeted Revenue and Expenditures, Operating Fund* for 2011 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information, except for the column marked "Unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplementary information, *Replacement Fund Projections*, is not a required part of the basic financial statements of River Rock Condominium Owners Association, Inc. but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



May 3, 2012

**RIVER ROCK CONDOMINIUM**  
**OWNERS ASSOCIATION, INC.**  
SCHEDULE of ACTUAL RESULTS VERSUS BUDGETED  
REVENUE and EXPENDITURES  
YEAR ENDED DECEMBER 31, 2011

| <b>OPERATING FUND</b>             |                          |                                            |                                               |
|-----------------------------------|--------------------------|--------------------------------------------|-----------------------------------------------|
|                                   | <u>Actual</u>            | <u>Budgeted</u><br><b><u>UNAUDITED</u></b> | Difference<br>(Over)/Under<br><u>Budgeted</u> |
| <b><u>REVENUE</u></b>             |                          |                                            |                                               |
| Assessments                       | \$ 384,000               | \$ 384,000                                 | \$ -                                          |
| Other Member Fees                 | 15,251                   | 14,696                                     | (555)                                         |
| Other Income                      | <u>-</u>                 | <u>500</u>                                 | <u>500</u>                                    |
| <i>Total Revenue</i>              | 399,251                  | 399,196                                    | (55)                                          |
| <b><u>EXPENDITURES</u></b>        |                          |                                            |                                               |
| Management Fees                   | 22,200                   | 22,200                                     | -                                             |
| Bad Debts                         | (4,665)                  | 5,000                                      | 9,665                                         |
| Insurance                         | 70,198                   | 71,000                                     | 802                                           |
| Office and Communications         | 2,410                    | 3,450                                      | 1,040                                         |
| Professional Fees                 | 3,743                    | 5,300                                      | 1,557                                         |
| Income Tax                        | -                        | 500                                        | 500                                           |
| Utilities                         | 113,208                  | 103,000                                    | (10,208)                                      |
| Grounds                           | 62,612                   | 59,340                                     | (3,272)                                       |
| Buildings                         | 40,418                   | 45,850                                     | 5,432                                         |
| Pool/Hot Tub                      | 7,781                    | 6,000                                      | (1,781)                                       |
| Snow Removal                      | 18,551                   | 13,000                                     | (5,551)                                       |
| Replacement Fund                  | <u>64,556</u>            | <u>64,556</u>                              | <u>-</u>                                      |
| <i>Total Expenditures</i>         | <u>401,012</u>           | <u>399,196</u>                             | <u>(1,816)</u>                                |
| <b><i>EXCESS (DEFICIT) of</i></b> |                          |                                            |                                               |
| <b><i>REVENUE OVER</i></b>        |                          |                                            |                                               |
| <b><i>EXPENDITURES</i></b>        | \$ <u><u>(1,761)</u></u> | \$ <u><u>-</u></u>                         | \$ <u><u>(1,761)</u></u>                      |

NOTE: REVENUE ( ) means more earned than budgeted.  
EXPENDITURES ( ) means more spent than budgeted.

**RIVER ROCK CONDOMINIUM**  
**OWNERS ASSOCIATION, INC.**  
REPLACEMENT FUND PROJECTIONS  
DECEMBER 31, 2011

**NOT AUDITED**

As of August 1999, an independent property consulting firm completed and delivered the *Building Evaluation and Reserve Fund Study* of River Rock Condominium Owners Association, Inc. That analysis is summarized below. The analysis includes the Replacement Fund balances and contribution levels recommended for the next 20 years, as well as, probable expenditures anticipated to maintain the property. The anticipated expenditures are projected as a twenty year phased project. The study projects costs utilizing an estimated inflation rate of 6.0 percent and offsets future costs by a projected earnings rate of 4.5 percent on invested funds. Updates of the study are recommended to allow for substantial changes in replacement costs and for natural disasters or unknown conditions requiring significant expenditures.

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. Should the funds required for major maintenance or replacement projects in the future be inadequate, the Board of Directors has the right to levy, with member approval, a special assessment, increase the annual assessment or delay the project until the funds are available. The study has not been adjusted for the construction defects and repairs discussed in Note 3 to the financial statements.

This information is not audited and the auditors express no opinion on it.

| <b><u>Components</u></b>                                                                                                                             | <b><u>1999<br/>Estimated<br/>Remaining<br/>Useful Life<br/>(Years)</u></b> | <b><u>1999<br/>Estimated<br/>Replacement<br/>Cost at Date of<br/>Next Replacement</u></b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Asphalt and Concrete                                                                                                                                 | 1 to 10                                                                    | \$ 127,623                                                                                |
| Building                                                                                                                                             | 2 to 20                                                                    | 127,554                                                                                   |
| Grounds                                                                                                                                              | 1 to 17                                                                    | 202,457                                                                                   |
| Pool                                                                                                                                                 | 1 to 9                                                                     | 45,471                                                                                    |
| Roofs                                                                                                                                                | 7 to 20                                                                    | <u>274,820</u>                                                                            |
| <b>Total Estimated Major Maintenance and<br/>Replacement Reserve Expenditures at<br/>Date of Next Replacement per Reserve<br/>Study, August 1999</b> |                                                                            | <b>\$ <u>777,925</u></b>                                                                  |