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

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 and 2011

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OWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS
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SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 and 2011

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, 2012 and 2011

TABLE OF CONTENTS

<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
Balance Sheets	3
Statements of Revenue, Expenditures and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to Financial Statements	6
<i>Independent Auditor's Report on Supplementary Information</i>	11
Schedule of Actual Results Versus Budgeted Revenue and Expenditures	12
Replacement Fund Projections	13

L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of River Rock Condominium Owners Association, Inc., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, expenditures and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, 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.

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Lakewood, Colorado
May 2, 2013

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

	DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 5,075	\$ 56,230	\$ 61,305	\$ 65,644
Certificates of Deposit	-	75,654	75,654	75,000
Assessments Receivable, Net	16,234	-	16,234	27,142
Accrued Interest Receivable	-	153	153	84
Interfund Balances	<u>(13,815)</u>	<u>13,815</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	\$ <u>7,494</u>	\$ <u>145,852</u>	\$ <u>153,346</u>	\$ <u>167,870</u>
LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 13,189	\$ -	\$ 13,189	\$ 20,495
Deferred Assessments	<u>6,720</u>	<u>-</u>	<u>6,720</u>	<u>5,807</u>
<i>Total Liabilities</i>	19,909	-	19,909	26,302
FUND BALANCES				
Operating Fund (Deficit)	(12,415)	-	(12,415)	(168,376)
Replacement Fund	<u>-</u>	<u>145,852</u>	<u>145,852</u>	<u>309,944</u>
<i>Total Fund Balances</i>	<u>(12,415)</u>	<u>145,852</u>	<u>133,437</u>	<u>141,568</u>
TOTAL LIABILITIES and FUND BALANCES	\$ <u>7,494</u>	\$ <u>145,852</u>	\$ <u>153,346</u>	\$ <u>167,870</u>

See Notes to Financial Statements

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

STATEMENTS of REVENUE, EXPENDITURES
and CHANGE in the FUND BALANCES

	YEARS ENDED DECEMBER 31,			
	2012			2011
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 327,174	\$ 66,426	\$ 393,600	\$ 384,000
Other Member Income	14,728	-	14,728	15,251
Interest	-	705	705	111
Total Revenue	341,902	67,131	409,033	399,362
EXPENDITURES				
Maintenance				
Grounds	65,092	-	65,092	62,612
Buildings	54,954	-	54,954	40,418
Pool/Hot Tub	6,679	-	6,679	7,781
Snow Removal	12,414	-	12,414	18,551
Total Maintenance	139,139	-	139,139	129,362
Operating				
Utilities	124,759	-	124,759	113,208
Total Operating	124,759	-	124,759	113,208
Replacement Projects	-	41,631	41,631	68,531
Administrative				
Bad Debts	1,802	-	1,802	(4,665)
Income Taxes	-	-	-	-
Insurance	80,835	-	80,835	70,198
Management Fees	22,200	-	22,200	22,200
Office and Communications	2,040	140	2,180	2,550
Professional Fees	4,618	-	4,618	3,743
Total Administrative	111,495	140	111,635	162,557
Total Expenditures	375,393	41,771	417,164	405,127
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	(33,491)	25,360	(8,131)	(5,765)
Interfund Transfers	189,452	(189,452)	-	-
Fund Balances, Beginning of Year	(168,376)	309,944	141,568	147,333
FUND BALANCES, End of Year	\$ (12,415)	\$ 145,852	\$ 133,437	\$ 141,568

See Notes to Financial Statements

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2012		2011	
	Operating Fund	Replacement Fund	Total	Total
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ (33,491)	\$ 25,360	\$ (8,131)	\$ (5,765)
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Assessments Receivable, Net	10,908	-	10,908	(18,740)
Accrued Interest Receivable	-	(69)	(69)	(84)
Prepaid Items	-	-	-	1,206
Accounts Payable and Accrued Liabilities	(7,306)	-	(7,306)	9,727
Deferred Assessments	<u>913</u>	<u>-</u>	<u>913</u>	<u>1,897</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	(28,976)	25,291	(3,685)	(11,759)
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	(654)	(654)	(75,000)
Interfund Transfers	<u>19,350</u>	<u>(19,350)</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>19,350</u>	<u>(20,004)</u>	<u>(654)</u>	<u>(75,000)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	(9,626)	5,287	(4,339)	(86,759)
Cash, Beginning of Year	<u>14,701</u>	<u>50,943</u>	<u>65,644</u>	<u>152,403</u>
<i>CASH, End of Year</i>	<u>\$ 5,075</u>	<u>\$ 56,230</u>	<u>\$ 61,305</u>	<u>\$ 65,644</u>
<i>Supplemental Disclosure</i>				
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See Notes to Financial Statements

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011

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 \$12,600 and \$10,500 in 2012 and 2011 respectively.

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

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash to be transferred from one fund to the other, if any, is recorded as interfund balances from one fund to the other.

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.

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.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 and 2011, the Association filed a standard corporate return; However, no income taxes were due. The Association has a cumulative tax loss carryforward of \$88,089 and \$65,400 respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. River Rock Condominium Owners Association, Inc. maintains its cash balances in both national banks and with investment firms. The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at December 31, 2012 and 2011, for interest earning balances in national banks, and unlimited insurance on demand deposits. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end December 31, 2012 and 2011, the Association has \$-0- in uninsured deposits.

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, 2012 and 2011.

Reclassifications

Certain accounts presented in the December 31, 2011 financial statements have been reclassified to conform to the December 31, 2012 format.

RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

NOTE 2: Replacement Fund

At December 31, 2012 and 2011, the Association had a balance of \$145,852 and \$309,944 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: Contingencies

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

NOTE 4: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the "Reserve Study", and on owners' reports of physical conditions. During the years covered herein, the following projects were undertaken and completed by the Replacement Fund:

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Asphalt	\$ -	\$ 19,772
Fence and Gates	-	7,649
Insulation	27,631	-
Landscaping	-	17,850
Plumbing	-	23,260
Stairs	14,000	-
Total Replacement Projects	<u>\$ 41,631</u>	<u>\$ 68,531</u>

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

NOTES to FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

(Continued)

NOTE 5: Subsequent Events

For the year ended December 31, 2012, the Association has evaluated subsequent events for potential recognition and disclosure through May 2, 2013, the date of the financial statement issuance.

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

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012

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. at December 31, 2012 and 2011 and for the years then ended 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 supplementary information for the year ended December 31, 2012, *Schedule of Actual Results Versus Budgeted Revenue and Expenditures, Operating Fund* on page 12 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* presented on page 13, 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 2, 2013

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RIVER ROCK CONDOMINIUM OWNERS ASSOCIATION, INC.

SCHEDULE of ACTUAL RESULTS VERSUS BUDGETED REVENUE and EXPENDITURES YEAR ENDED DECEMBER 31, 2012

OPERATING FUND			
	<u>Actual</u>	<u>Budgeted</u> <u>UNAUDITED</u>	Difference (Over)/Under <u>Budgeted</u>
<u>REVENUE</u>			
Assessments	\$ 393,600	\$ 393,600	\$ -
Other Member Fees	14,728	14,596	(132)
Other Income	<u>-</u>	<u>500</u>	<u>500</u>
<i>Total Revenue</i>	408,328	408,696	368
<u>EXPENDITURES</u>			
Management Fees	22,200	22,200	-
Bad Debts	1,802	3,000	1,198
Insurance	80,835	71,000	(9,835)
Office and Communications	2,040	3,300	1,260
Professional Fees	4,618	7,300	2,682
Income Tax	-	500	500
Utilities	124,759	115,000	(9,759)
Grounds	65,092	60,120	(4,972)
Buildings	54,954	40,850	(14,104)
Pool/Hot Tub	6,679	6,000	(679)
Snow Removal	12,414	13,000	586
Replacement Fund	<u>66,426</u>	<u>66,426</u>	<u>-</u>
<i>Total Expenditures</i>	<u>441,819</u>	<u>408,696</u>	<u>(33,123)</u>
<i>EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES</i>	<u>\$ (33,491)</u>	<u>\$ -</u>	<u>\$ (33,491)</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, 2012**

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.

<u>Components</u>	1999	1999
	Estimated Remaining Useful Life <u>(Years)</u>	Estimated Replacement Cost at Date of <u>Next Replacement</u>
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>
Total Estimated Major Maintenance and Replacement Reserve Expenditures at Date of Next Replacement per Reserve Study, August 1999		<u>\$ 777,925</u>