

**Little Elk Creek Village Home Owners
Association
(A Colorado Non-Profit Corporation)**

Financial Statements

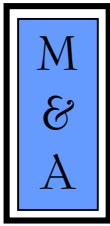
June 30, 2010



**Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
June 30, 2010**

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MCMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Little Elk Creek Village Home Owners Association
Snowmass, Colorado**

We have audited the accompanying balance sheets of Little Elk Creek Village Home Owners Association (the "Association"), a Colorado non-profit corporation, as of June 30, 2010, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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 Little Elk Creek Village Home Owners Association as of June 30, 2010, and the changes in fund balances and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Operating Fund Revenues and Expenses – Budget to Actual Comparison (page 9) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion 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, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Association has not estimated the remaining useful lives and replacement costs of the common property and therefore has not presented the Schedule of Future Major Repairs and Replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

**McMahan and Associates, L.L.C.
February 2, 2011**

Member: American Institute of Certified Public Accountants

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Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Balance Sheets
June 30, 2010

	Operating Fund	Replacement Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	68,662	101,861	170,523
Investments	-	246,113	246,113
Assessments receivable	567	-	567
Prepaid expenses	1,734	-	1,734
Due (to)/from other funds	(24,897)	24,897	-
Total current assets	46,066	372,871	418,937
Total Assets	46,066	372,871	418,937
 Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	11,950	-	11,950
Deferred assessments	16,920	-	16,920
Total current liabilities	28,870	-	28,870
Total Liabilities	28,870	-	28,870
 Fund Balances	17,196	372,871	390,067
Total Liabilities and Fund Balances	46,066	372,871	418,937

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

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Fund Balances
For the Year Ended June 30, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Common assessments	120,020	51,200	171,220
Interest income	-	5,552	5,552
Other income	6,670	-	6,670
Total Revenues	<u>126,690</u>	<u>56,752</u>	<u>183,442</u>
Expenses:			
Non-water operations:			
Office supplies	618	-	618
Accounting/Taxes	7,948	-	7,948
Bank charges	125	-	125
Grounds and landscaping	9,083	-	9,083
Playground maintenance	8,370	-	8,370
Insurance	3,117	-	3,117
Legal fees	1,182	-	1,182
Management fee	14,400	-	14,400
Meeting expense	100	-	100
Ditch maintenance	2,504	-	2,504
Snow removal	7,040	-	7,040
Trash removal	29,365	-	29,365
Subtotal - Non-water operations expenses	<u>83,852</u>	<u>-</u>	<u>83,852</u>
Water operations:			
Supplies	340	-	340
Lab fees	5,632	-	5,632
Operation fees	2,970	-	2,970
Utilities	3,674	-	3,674
Equipment repairs and maintenance	6,983	-	6,983
Subtotal - Water operations expenses	<u>19,599</u>	<u>-</u>	<u>19,599</u>
Total Expenses	<u>103,451</u>	<u>-</u>	<u>103,451</u>
Excess (Deficiency) of Revenues Over Expenses	23,239	56,752	79,991
Fund Balances (Deficit) - Beginning of Year	<u>(6,043)</u>	<u>316,119</u>	<u>310,076</u>
Fund Balances - End of Year	<u>17,196</u>	<u>372,871</u>	<u>390,067</u>

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

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended June 30, 2010

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities:			
Cash received from owner assessments	120,832	51,200	172,032
Interest received	-	242	242
Other cash receipts	6,670	-	6,670
Cash paid for goods and services	(111,073)	-	(111,073)
Net cash transferred (to) from other fund	1,200	(1,200)	-
Net Cash Provided (Used) by Operating Activities	17,629	50,242	67,871
Cash Flows From Investing Activities:			
Cash paid to purchase investments	-	(243,392)	(243,392)
Cash received on sale/redemption of investments	-	243,392	243,392
Net Cash Provided (Used) by Investing Activities	-	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	17,629	50,242	67,871
Cash and Cash Equivalents - Beginning of Year	51,033	51,619	102,652
Cash and Cash Equivalents - End of Year	68,662	101,861	170,523
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Excess (deficiency) of revenues over expenses	23,239	56,752	79,991
Adjustments to reconcile:			
Interest compounded to investments	-	(5,310)	(5,310)
(Increase) decrease in assessments receivable	2,988	-	2,988
(Increase) decrease in prepaid expenses	(1,734)	-	(1,734)
(Increase) decrease in interfund balances	1,200	(1,200)	-
Increase (decrease) in accounts payable	(5,888)	-	(5,888)
Increase (decrease) in deferred assessments	(2,176)	-	(2,176)
Total Adjustments	(5,610)	(6,510)	(12,120)
Net Cash Provided (Used) by Operating Activities	17,629	50,242	67,871

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

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statement
June 30, 2010

1. Organization

Little Elk Creek Village Home Owners Association (the "Association") was incorporated in the State of Colorado as a non-profit corporation organized for the purpose of maintaining and managing the common areas and facilities of the Association, pursuant to Articles of Incorporation filed June 8, 1972 and subsequently amended (collectively, the "Articles"). The Association's Amended Protective Covenants with First, Second, Third, and Fourth Amendments was recorded November 7, 2005 (the "Protective Covenants").

The Association, which is located in Snowmass, Colorado, consists of 77 residential parcels.

2. Summary of Significant Accounting Principles

A. Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting which recognizes revenues when earned or assessed and expenses when incurred.

B. Fund Accounting

The Association uses the fund method of accounting, which requires that funds, such as operating funds and funds for future major repairs and replacements be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the Operating Fund are at the discretion of the Association's Board of Directors (the "Board") and with direction from the Managing Agent. Disbursements from the Replacement Fund may be made only for their designated purposes.

C. Recognition of Assets

Real and personal common property acquired by the original homeowners is not recognized on the financial statements of the Association because it is commonly owned by individual owners and its disposition by the Board is restricted. Consequently, replacements and improvements to such common property are not recorded as capitalized fixed assets, but are charged as expense to the Replacement Fund.

D. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Association considers cash equivalents to include checking, money market and savings accounts, together with all highly liquid investments with a maturity of less than three months when purchased.

E. Investments

The Association invests certain excess funds in certificates of deposit. Because the Association has the intent and ability to hold these securities to maturity, these investments are classified as "held-to-maturity". Accordingly, such securities are reported on these financial statements at amortized cost. Interest earned by the Association, together with all realized gains or losses are included in investment income as a component of current period earnings. Unrealized gains and losses arising from changes in the market value of these securities are not recognized by the Association.

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statement
June 30, 2010
(Continued)

2. Summary of Significant Accounting Principles (continued)

F. Allowance for Uncollectible Accounts

The Association uses the allowance method to recognize the future potential uncollectibility of assessments due from owners. No such allowance was recorded at June 30, 2010 since all such amounts were considered collectible.

G. Deferred Assessments

Deferred assessments represent member assessments collected in advance of the fiscal period in which such revenue is considered to be earned by the Association.

H. Common Assessments

Common assessments are the primary source of revenue for the Association. The Board, together with the managing agent, prepares an annual budget to estimate the annual expenses of maintaining the Association's common elements. Quarterly, in advance, members of the Association are assessed for their pro-rata share of these estimated expenses.

Since the Association is designed only to operate as a conduit to collect assessments and pay operating expenses on behalf of members, any excess or deficiency of revenues over expenses is repaid to or recovered from the members in a subsequent year by reducing or increasing assessments, or, with the approval of the membership, transferred to the Replacement Fund.

I. Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources.

J. Use of Estimates

The preparation of financial statements in conformity with U.S. 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 that reporting period. Actual results could differ from those estimates.

K. Subsequent Events

Management has evaluated subsequent events through February 2, 2011; the date these financial statements were available to be issued.

**Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statement
June 30, 2010
(Continued)**

3. Investments

At June 30, 2010, the Association held the following investments:

Certificates of deposit, maturing in fiscal year 2011, bearing interest at 2.25% per annum	<u>\$ 246,111</u>
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4. Replacement Funds and Reserve for Future Major Repairs and Replacements

As permitted by the Protective Covenants, the Association is accumulating funds for future major repairs and replacement of the Association's common property, including a water system created to provide water for domestic use of the members of the Association. In accordance with industry guidelines, it is the Association's primary duty to maintain and preserve the common property of the owners. Therefore, it is the Association's responsibility to determine a method for funding the costs of future major repairs and maintenance by assessing owners when funds are needed or by anticipating costs over extended time periods, assessing owners for the anticipated costs, and accumulating funds in reserves to meet the future funding requirements.

The Board has not conducted a study to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. In the interim, the Board has chosen to fund major repairs and replacements through the accumulation of regular member assessments in the Replacement Fund. Accumulated funds are generally not available for expenditures for normal operations.

Actual expenditures may vary from current estimates of 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 Board has the right, subject to member approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

5. Management Agreement and Related Party Transactions

A. Management Agreement

Effective June 11, 2008, the Association entered into an agreement with Edquist Management and Real Estate LLC ("EMRE") to provide management and maintenance of the common areas of the Association. The initial term of the agreement expired June 11, 2009, but automatically renews for successive one-year terms unless otherwise terminated. The agreement requires EMRE to perform duties necessary to maintain and operate the Association common areas as provided in the Protective Covenants and Bylaws. Under the terms of the agreement, EMRE is to receive an initial monthly fee of \$1,200, with increases set forth and adopted under an approved budget. In addition, EMRE is to be reimbursed for any direct business expenses incurred on behalf of the Association.

The following expenses were incurred or reimbursed to EMRE for the year ended June 30, 2010:

Management fee	\$	14,400
Grounds and landscaping		7,410
Office supplies		<u>118</u>
Total	\$	<u>21,928</u>

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statement
June 30, 2010
(Continued)

5. Management Agreement and Related Party Transactions (continued)

B. Related Party Transactions

A member of the Association provides accounting services under an informal agreement with the Association. Total accounting fees and related office supplies reimbursements incurred by the Association under this arrangement were \$6,913 for fiscal year 2010.

Another member of the Association performed repairs totaling \$1,623 to the Association's water equipment during fiscal year 2010.

During 2010, members of the Association were reimbursed an aggregate of \$1,426 for playground improvements included in Grounds and Landscaping expense.

A member of the Association performed ditch and pond maintenance during 2010 at a total cost of \$1,267.

Little Elk Creek Village Home Owners Association
(A Colorado Non-Profit Corporation)
Schedule of Operating Fund Revenues and Expenses - Budget and Actual Comparison
For the Year Ended June 30, 2010

	Budget (Unaudited)	Actual	Variance: Positive (Negative)
Revenues:			
Common assessments	120,020	120,020	-
Other income	6,300	6,670	370
Total Revenues	126,320	126,690	370
Expenses:			
Non-water operations:			
Office supplies	1,540	618	922
Accounting/Taxes	7,800	7,948	(148)
Bank charges	-	125	(125)
Fire protection	1,400	-	1,400
Grounds and landscaping	10,500	9,083	1,417
Playground maintenance	2,000	8,370	(6,370)
Insurance	5,000	3,117	1,883
Legal fees	1,500	1,182	318
Management fee	14,400	14,400	-
Meeting expense	220	100	120
Ditch maintenance	3,500	2,504	996
Snow removal	10,060	7,040	3,020
Trash removal	33,600	29,365	4,235
Subtotal - Non-water operations expenses	<u>91,520</u>	<u>83,852</u>	<u>7,668</u>
Water operations:			
Supplies	4,596	340	4,256
Lab fees	6,876	5,632	1,244
Operation fees	3,000	2,970	30
Utilities	4,512	3,674	838
Equipment repairs and maintenance	19,416	6,983	12,433
Subtotal - Water operations expenses	<u>38,400</u>	<u>19,599</u>	<u>18,801</u>
Total Expenses	129,920	103,451	26,469
Excess (Deficiency) of Revenues Over Expenses	(3,600)	23,239	26,839
Fund Balances (Deficit) - Beginning of Year	-	(6,043)	(6,043)
Fund Balances - End of Year	<u>(3,600)</u>	<u>17,196</u>	<u>20,796</u>

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