

**ASSOCIATION OF ANGEL FIRE
PROPERTY OWNERS, INCORPORATED**

Financial Statements – Income Tax Basis

April 30, 2012 and 2011

With Independent Auditors' Report

Independent Auditors' Report

The Board of Directors and Members
Association of Angel Fire Property Owners, Incorporated

We have audited the accompanying statements of assets, liabilities and members' equity – income tax basis of the Association of Angel Fire Property Owners, Incorporated (the Association) as of April 30, 2012 and 2011, and the related statements of revenues, expenses and members' equity – income tax basis 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in note 1, these financial statements were prepared on the cash basis of accounting the Association uses for federal income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and members' equity of the Association of Angel Fire Property Owners, Incorporated as of April 30, 2012 and 2011, and its revenues, expenses and changes in members' equity for the years then ended on the basis of accounting described in note 1.

NICHOLAS MONTGOMERY LLP

January 27, 2012

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Statements of Assets, Liabilities and Members' Equity – Income Tax Basis
April 30, 2012 and 2011

	2012		2011
<u>Assets</u>			
Cash	\$ 84,853	\$	128,052
Restricted cash – performance deposits	43,587		47,200
Short-term certificates of deposit	81,156		40,000
Prepaid income taxes	-		774
Furniture and equipment, net of accumulated depreciation of \$1,855 in 2012 and \$8,258 in 2011	1,085		2,727
Total assets	\$ 210,681	\$	218,753
<u>Liabilities and Members' Equity</u>			
Liabilities:			
Performance deposits	\$ 43,587	\$	47,200
State income taxes payable	50		33
Total liabilities	43,637		47,233
Members' equity	167,044		171,520
Total liabilities and members' equity	\$ 210,681	\$	218,753

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

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Statements of Revenues, Expenses and Members' Equity – Income Tax Basis
Years ended April 30, 2012 and 2011

	2012	2011
Revenues:		
Member dues	\$ 55,214	\$ 55,361
Environmental committee fees	21,350	24,450
Performance deposit forfeitures	4,463	27,575
Interest income	1,415	1,393
Total revenues	82,442	108,779
Expenses:		
Personnel	40,205	37,000
Property inspection	3,958	5,350
Insurance	1,533	2,037
Office supplies	3,567	2,469
Other	8,002	9,565
Postage	308	921
Professional fees	27,967	14,338
Telephone	1,319	1,521
Total expenses	86,859	73,201
Excess (deficit) of revenues over expenses before income taxes	(4,417)	35,578
Income tax expense	59	42
Excess (deficit) of revenues over expenses	(4,476)	35,536
Members' equity at beginning of year	171,520	135,984
Members' equity at end of year	\$ 167,044	\$ 171,520

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

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Notes to Financial Statements – Income Tax Basis
April 30, 2012 and 2011

(1) General Information and Summary of Significant Accounting Policies

General Information

Association of Angel Fire Property Owners, Incorporated (the Association) was incorporated as a not-for-profit corporation in the State of New Mexico on July 10, 1995 to manage, maintain and improve land and improvements located within the Angel Fire Development in Angel Fire, New Mexico, for the benefit of property owners within the development and the public at large.

Basis of Presentation

The accompanying financial statements have been prepared on the cash basis of accounting used for federal income tax reporting purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Consequently, as indicated below, certain revenues and expenses are recognized in the determination of net income or loss in different reporting periods than if the financial statements were prepared in conformity with GAAP. Although income tax rules are used to determine the timing of reporting revenues and expenses, nontaxable revenues and nondeductible expenses, if applicable, are included in the determination of excess (deficit) of revenues over expenses.

The principal differences between the income tax cash basis used by the Association and GAAP are (1) revenue is generally recognized when received rather than when earned and expenses are generally recognized when paid rather than when obligations are incurred, and (2) property and equipment are depreciated using Internal Revenue Service statutes applicable when property is placed in service, whereas for GAAP property and equipment are depreciated over their estimated useful lives generally using the straight-line method.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using accelerated methods and lives allowable for federal income tax purposes. Depreciation expense was \$723 in fiscal 2012 and \$1,362 in fiscal 2011.

Member Dues

Angel Fire Resort Operations, L.L.C. (AFRO) is the original owner of land in the Angel Fire Development. All property sold within the development is subject to a deed restriction requiring payment of annual dues to AFRO for amenity improvements and maintenance. Pursuant to an agreement, one percent of dues collected by AFRO are paid to the Association for the Association's administrative expenses. These amounts are recorded when received and are captioned "Member dues" in the accompanying financial statements.

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Notes to Financial Statements – Income Tax Basis, continued
April 30, 2012 and 2011

(1) General Information and Summary of Significant Accounting Policies, continued

Fees and Performance Deposits

The Association, through its Environmental and Architectural Control Committee (EACC), monitors and enforces protective covenants and restrictions within the Angel Fire Development. Property owners must submit building plans to the EACC for approval. The fee for this service is recorded as revenue when received.

Property owners must also pay to the EACC a performance deposit which is returned upon building completion in accordance with approved plans. Performance deposits received are recorded as a liability in the accompanying financial statements. At times, owners forfeit performance deposits for failure to follow EACC guidelines, protective covenants or restrictions. Forfeited deposits are recorded as revenues at the time of forfeiture.

Income Taxes

Property owner associations may be taxed either as associations or as regular corporations for federal income tax purposes. The Association has elected to be taxed as a corporation in fiscal 2012 and as an association in fiscal 2011.

Management has evaluated the Association’s federal and state tax positions and believes there are no significant uncertain tax positions. The Association is generally not subject to examination by federal and state tax authorities for tax years before fiscal 2009.

(2) Related Party Transactions

The Association’s transactions with AFRO are summarized as follows:

	2012	2011
Member dues (see note 1)	\$ 55,214	\$ 55,361
Administrative salary reimbursement	(18,526)	(18,231)

(3) Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through January 27, 2013, the date the financial statements were available to be issued. Management’s review discovered no subsequent events that should be recognized as of April 30, 2012 or that are deemed significant enough to disclose.