

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

Financial Statements – Income Tax Basis

April 30, 2013 and 2012

With Independent Auditor's Report

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Association of Angel Fire Property Owners, Incorporated (the Association) (a New Mexico not-for-profit corporation) which are comprised of the statements of assets, liabilities and members' equity – income tax basis, as of April 30, 2013 and 2012, and the related statements of revenues, expenses and members' equity – income tax basis 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 the financial statements in accordance with the income tax basis of accounting described in note 1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to error or fraud.

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 of 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 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 Company'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 Company'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 assets, liabilities and members' equity of the Association of Angel Fire Property Owners, Incorporated as of April 30, 2013 and 2012, and its revenues, expenses and changes in members' equity for the years then ended in accordance with the basis of accounting the Association of Angel Fire Property Owners, Incorporated uses for income tax purposes, as described in note 1.

Basis of Accounting

We draw attention to note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Association of Angel Fire Property Owners, Incorporated uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

NICHOLAS MONTGOMERY LLP

October 30, 2013

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Statements of Assets, Liabilities and Members' Equity – Income Tax Basis
April 30, 2013 and 2012

	2013	2012
<u>Assets</u>		
Cash	\$ 77,241	\$ 84,853
Restricted cash – performance deposits	45,708	43,587
Short-term certificates of deposit	81,481	81,156
Furniture and equipment, net of accumulated depreciation of \$7,604 in 2013 and \$8,751 in 2012	1,007	1,085
Total assets	\$ 205,437	\$ 210,681
<u>Liabilities and Members' Equity</u>		
Liabilities:		
Performance deposits	\$ 45,708	\$ 43,587
State income taxes payable	50	50
Total liabilities	45,758	43,637
Members' equity	159,679	167,044
Total liabilities and members' equity	\$ 205,437	\$ 210,681

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
Member dues	\$ 58,584	\$ 55,214
Environmental committee fees	21,750	21,350
Performance deposit forfeitures	112	4,463
Interest income	359	1,415
	<u>80,805</u>	<u>82,442</u>
Total revenues	80,805	82,442
Expenses:		
Personnel	46,465	40,205
Property inspection	4,352	3,958
Insurance	272	1,533
Office supplies	5,103	3,567
Other	14,236	8,002
Postage	145	308
Professional fees	15,708	27,967
Telephone	1,839	1,319
	<u>88,120</u>	<u>86,859</u>
Total expenses	88,120	86,859
Deficit of revenues over expenses before income taxes	(7,315)	(4,417)
Income tax expense	50	59
	<u>50</u>	<u>59</u>
Deficit of revenues over expenses	(7,365)	(4,476)
Members' equity at beginning of year	<u>167,044</u>	<u>171,520</u>
Members' equity at end of year	<u>\$ 159,679</u>	<u>\$ 167,044</u>

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, 2013 and 2012

(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 \$498 in fiscal 2013 and \$723 in fiscal 2012.

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, 2013 and 2012

(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 2013 and as a corporation in fiscal 2012.

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 2010.

(2) Related Party Transactions

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

	2013		2012
Member dues (see note 1)	\$ 58,584	\$	55,214
Administrative salary reimbursement	(18,890)		(18,526)

(3) Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through October 30, 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, 2013 or that are deemed significant enough to disclose.