

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

Financial Statements – Income Tax Basis

April 30, 2011 and 2010

With Independent Auditors' Report

PARTNERS

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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, 2011 and 2010, 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, 2011 and 2010, 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

November 1, 2011

ASSOCIATION OF ANGEL FIRE PROPERTY OWNERS, INCORPORATED
Statements of Assets, Liabilities and Members' Equity – Income Tax Basis
April 30, 2011 and 2010

	2011		2010
<u>Assets</u>			
Cash	\$ 128,052	\$	55,201
Restricted cash – performance deposits	47,200		82,825
Short-term certificates of deposit	40,000		80,000
Prepaid income taxes	774		783
Furniture and equipment, net of accumulated depreciation of \$8,258 in 2011 and \$6,896 in 2010	2,727		-
Total assets	\$ 218,753	\$	218,809
<u>Liabilities and Members' Equity</u>			
Liabilities:			
Performance deposits	\$ 47,200	\$	82,825
State income taxes payable	33		-
Total liabilities	47,233		82,825
Members' equity	171,520		135,984
Total liabilities and members' equity	\$ 218,753	\$	218,809

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, 2011 and 2010

	2011	2010
Revenues:		
Member dues	\$ 55,361	\$ 55,613
Environmental committee fees	24,450	13,950
Performance deposit forfeitures	27,575	7,500
Interest income	1,393	1,429
Total revenues	108,779	78,492
Expenses:		
Personnel	37,000	35,959
Property inspection	5,350	3,759
Insurance	2,037	2,037
Office supplies	2,469	1,591
Other	9,565	8,393
Postage	921	5,623
Professional fees	14,338	27,875
Telephone	1,521	1,490
Total expenses	73,201	86,727
Excess (deficit) of revenues over expenses before income taxes	35,578	(8,235)
Income tax expense	42	50
Excess (deficit) of revenues over expenses	35,536	(8,285)
Members' equity at beginning of year	135,984	144,269
Members' equity at end of year	\$ 171,520	\$ 135,984

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, 2011 and 2010

(1) General Information and Summary of Significant Accounting Policies

General Information

Association of Angel Fire Property Owners, Incorporated (the Association) was incorporated as a nonprofit 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 \$1,362 in fiscal 2011. There was no depreciation expense in fiscal 2010.

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, 2011 and 2010

(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 an association in fiscal 2011 and as a regular corporation in fiscal 2010.

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 2008.

(2) Related Party Transactions

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

	<u>2011</u>	<u>2010</u>
Member dues (see note 1)	\$ 55,361	\$ 55,613
Administrative salary reimbursement	18,231	20,501

(3) Subsequent Events

Management has evaluated subsequent events for recognition or disclosure in the financial statements through November 1, 2011, 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, 2011 or that are deemed significant enough to disclose.