

# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard  
Lakewood, Colorado 80227  
303-988-5648 FAX: 303-988-5919  
don@mcnurlincpa.com

To the management and board of directors of  
Governor's Ranch Homeowners Association, Inc.

We have audited the financial statements of Governor's Ranch Homeowners Association, Inc. for the year ended December 31, 2010, and have issued our report thereon dated February 1, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have discussed the audit with management and have outlined our responsibilities, etc. in our engagement letter dated August 24, 2010. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Governor's Ranch Homeowners Association, Inc. are described in Note 3 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended December 31, 2010. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

The cash and investments in the Capital Reserve Fund totals \$393,268. The amount accumulated in the Capital Reserve Fund is based on an informal study of estimated useful lives and replacement costs. Because of the extend of property owned by the Association and timing of major repairs and replacements, it is not known if the amount in the Reserve Fund is adequate to cover all repairs and replacements in the future.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

Note 5 to the financial statements: The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimate of current replacement costs and considering amounts previously accumulated in the Capital Reserve Fund. Funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the Capital Reserve Fund may not be adequate to meet all future needs for major repairs and replacements. In the event that actual repair and replacement costs exceed available replacement funds, the Association has the authority to levy a special assessment with the assent of 60% of the votes of each class of the members voting in person or by proxy at a meeting called for that purpose.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We normally adjust book depreciation as part of the audit engagement.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 1, 2011.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. Furthermore, we have no reason to believe that such a consultation is necessary.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors and management of Governor's Ranch Homeowners Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*McNurlin & Associates, P.C.*

McNurlin & Associates, P.C.

Lakewood, CO

February 1, 2011