

SHENANDOAH ON SMOKY HILL ASSOCIATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2011

SHENANDOAH ON SMOKY HILL ASSOCIATION

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February 29, 2012

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shenandoah on Smoky Hill Association
Aurora, Colorado

I have audited the accompanying balance sheet of Shenandoah on Smoky Hill Association as of December 31, 2011, and the related statements of revenues and expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah on Smoky Hill Association as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that supplementary information about future major repairs and replacements on pages seven and eight be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Frank J. Sassolino CPA, P.C.

SHENANDOAH ON SMOKY HILL ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 40,513	\$ 138,105	\$ 178,618
Certificates of Deposit		160,000	160,000
Accrued Interest Receivable		284	284
Homeowner Assessments Receivable (Net of Allowance For Doubtful Accounts of \$11,000)	16,119		16,119
Prepaid Expenses	2,669		2,669
Prepaid Income Tax	490		490
<u>Total Assets</u>	<u>\$ 59,791</u>	<u>\$ 298,389</u>	<u>\$ 358,180</u>

LIABILITIES AND FUND BALANCES

<u>Liabilities</u>			
Accounts Payable	\$ 12,438	\$	\$ 12,438
Assessments Received in Advance	<u>15,006</u>		<u>15,006</u>
<u>Total Liabilities</u>	27,444		27,444
<u>Fund Balances</u>	<u>32,347</u>	<u>298,389</u>	<u>330,736</u>
<u>Total Liabilities and Fund Balances</u>	<u>\$ 59,791</u>	<u>\$ 298,389</u>	<u>\$ 358,180</u>

See Accompanying Notes to Financial Statements

SHENANDOAH ON SMOKY HILL ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Homeowner Assessments	\$ 407,330	\$ 96,670	\$ 504,000
Interest and Dividend Income		1,265	1,265
Late Fees and Other Income	11,490		11,490
<u>Total Revenues</u>	<u>418,820</u>	<u>97,935</u>	<u>516,755</u>
<u>EXPENSES:</u>			
Repairs and Maintenance:			
Grounds Maintenance	90,337	8,763	99,100
Trash Removal	31,098		31,098
Snow Removal	20,355		20,355
Miscellaneous Repairs and Supplies	14,565	11,241	25,806
Street and Concrete Repairs	14,499		14,499
Pool Maintenance and Supplies	11,219	3,771	14,990
Fences	2,558		2,558
Utilities:			
Water and Sewer	55,728		55,728
Gas and Electric	18,432		18,432
Security	122,472		122,472
Management Fee	20,400		20,400
Legal and Audit	10,278		10,278
Administrative Expenses	8,229		8,229
Bad Debt	6,876		6,876
Insurance	6,186		6,186
Telephone	1,837		1,837
<u>Total Expenses</u>	<u>435,069</u>	<u>23,775</u>	<u>458,844</u>
<u>Revenues Over (Under) Expenses</u>	(16,249)	74,160	57,911
<u>Beginning Fund Balances</u>	<u>48,596</u>	<u>224,229</u>	<u>272,825</u>
<u>Fund Balances, December 31, 2011</u>	<u>\$ 32,347</u>	<u>\$ 298,389</u>	<u>\$ 330,736</u>

See Accompanying Notes to Financial Statements

SHENANDOAH ON SMOKY HILL ASSOCIATION
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Operating Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>			
<u>Net Revenues Over (Under) Expenses</u>	(\$ 16,249)	\$ 74,160	\$ 57,911
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Net	5,774		5,774
Decrease in Prepaid Income Tax	583		583
Decrease in Prepaid Expenses	759		759
Increase in Interest Receivable		(284)	(284)
Increase in Accounts Payable	824		824
Decrease in Assessments Received in Advance	(670)		(670)
<u>Net Cash Provided (Used) By Operating Activities</u>	(8,979)	73,876	64,897
<u>Cash Flows Used By Investing Activities:</u>			
Increase in Certificates of Deposit		(39,949)	(39,949)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,979)	33,927	24,948
<u>Cash and Cash Equivalents at Beginning of Year</u>	49,492	104,178	153,670
<u>Cash and Cash Equivalents at December 31, 2011</u>	\$ 40,513	\$ 138,105	\$ 178,618

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	-0-
Interest Expense	-0-

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See Accompanying Notes to Financial Statements

SHENANDOAH ON SMOKY HILL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1: ORGANIZATION

Shenandoah on Smoky Hill Association (the Association) is a residential management association incorporated in 1974 as a Colorado non-profit corporation for furthering the interest of all owners of homes in the community. The Association consists of the owners of 200 single-family homes located in Aurora, Colorado. The objectives of the Association include the maintenance, preservation, and architectural control of the lots and common area within the community.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUNDS

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 generally at the discretion of the Board of the Association and the property manager. Disbursements from the replacement fund may be made only for designated purposes.

PROPERTY

In 1974, the declarant, Witkin Homes, Inc., transferred title to the common area consisting of streets, grounds, clubhouse, swimming pool and tennis courts to the Association. The value of the transferred items is not reasonably determinable, and no amounts have been recorded in these financial statements regarding those items.

OWNERS' ASSESSMENTS

Owners' assessments are determined annually. Budgets are approved by the Board to meet operating costs and all owners are assessed at a uniform rate. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

ESTIMATES

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

SHENANDOAH ON SMOKY HILL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operational expenditures.

The Association engaged Association Reserves, Inc. who conducted a study in April 2012 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of future replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 4: INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2011. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and 4.63% by the State of Colorado.

NOTE 5: ASSESSMENTS RECEIVABLE

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Homeowner Assessments Receivable at the balance sheet date represent assessments, late fees and other charges due from homeowners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the homeowners, and obtaining judgment on other assets of the homeowner.

NOTE 6: INTEREST INCOME

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

NOTE 7: RELATED PARTY TRANSACTION

The Association's security is provided by Eagle Security. John Marinos, the treasurer for the Association, is the president of Eagle Security. During 2011, the Association paid Eagle Security \$122,640.00.

NOTE 8: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 29, 2012, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
(Unaudited)

SHENANDOAH ON SMOKY HILL ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2011
 (Unaudited)

Association Reserves, Inc. conducted a study in April 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated future average replacement costs are based on estimated costs to repair or replace the common property components at the end of their useful lives assuming an annual inflation rate of 3%. Funding requirements assume funds accumulated in the replacement fund will earn .5% annually net of income taxes.

The following information is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Year For Replacement</u>	<u>Estimated Future Average Replacement Costs</u>
Concrete	2013 - 2017	\$ 23,780
Wood Deck	2020	5,004
Asphalt	2013 - 2020	791,152
Railroad Ties	2013	63,304
Condenser Unit/Water Heaters/Furnaces	2013 - 2015	18,897
Tennis Courts/Fences/Lights	2013 - 2031	66,840
Pole Lights	2022	54,018
Patio Furniture	2015	3,825
Play Equipment/Surface	2013	69,590
Fences	2015 - 2026	286,036
Clubhouse	2014 - 2024	63,907
Irrigation Controllers	2016	2,814
Pool Resurface	2019	26,866
Pool Equipment	2013 - 2022	19,384
Roof and Gutters	2016 - 2030	32,441
Signage	2021	5,700
Fountain Equipment	2016	3,825
Landscape - Replace Partial	2021	15,835
Miscellaneous Repairs	2014 - 2021	11,827
Picnic Tables - Replace	2022	7,392
Brick Columns	2016	1,407
Shingle Siding - Replace	2017	22,722
Office Equipment	2015	2,185
Pond Liner	2015	21,218
<u>Total:</u>		<u>\$ 1,619,969</u>

SHENANDOAH ON SMOKY HILL ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2011
(Unaudited)

The Association is funding for future repairs and replacements using the "Cash Flow Method". The "Cash Flow Method" does not fund for each component separately; rather, the reserve funds are in a common pool to be used to meet the disbursement requirements of any component as it is forecasted by the remaining life. As of December 31, 2011, the Association had accumulated \$298,389 in its replacement fund. Based on the study, the minimum recommended annual deposit to the replacement fund is \$120,000. The amount of assessments designated to fund the replacement fund for 2012 is \$102,870.