

SHENANDOAH ON SMOKY HILL ASSOCIATION
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013

SHENANDOAH ON SMOKY HILL ASSOCIATION

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June 16, 2014

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shenandoah on Smoky Hill Association
Aurora, Colorado

Report on the Financial Statements

I have audited the accompanying financial statements of Shenandoah on Smoky Hill Association, which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from 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 the 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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 December 31, 2013, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information about future major repairs and replacements on pages nine and ten 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 my inquiries, the basic financial statements, and other knowledge I 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. Lumbino CPA, P.C.

SHENANDOAH ON SMOKY HILL ASSOCIATION

BALANCE SHEET

DECEMBER 31, 2013

	Operating Fund	Replacement Fund	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 36,936	\$ 239,515	\$ 276,451
Certificates of Deposit		102,453	102,453
Accrued Interest Receivable		262	262
Homeowner Assessments Receivable (Net of Allowance For Doubtful Accounts of \$17,000)	9,882		9,882
Prepaid Expenses	3,672		3,672
<u>Total Assets</u>	\$ <u>50,490</u>	\$ <u>342,230</u>	\$ <u>392,720</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 10,150	\$	\$ 10,150
Assessments Received in Advance	<u>19,029</u>		<u>19,029</u>
<u>Total Liabilities</u>	29,179		29,179
<u>Fund Balances</u>	<u>21,311</u>	<u>342,230</u>	<u>363,541</u>
<u>Total Liabilities and Fund Balances</u>	\$ <u>50,490</u>	\$ <u>342,230</u>	\$ <u>392,720</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, 2013

	Operating Fund	Replacement Fund	Total
<u>REVENUES:</u>			
Homeowner Assessments	\$ 424,428	\$ 103,572	\$ 528,000
Interest and Dividend Income		1,412	1,412
Late Fees and Other Income	12,775		12,775
<u>Total Revenues</u>	<u>437,203</u>	<u>104,984</u>	<u>542,187</u>
<u>EXPENSES:</u>			
Repairs and Maintenance:			
Grounds Maintenance	101,115		101,115
Trash Removal	32,448		32,448
Street and Concrete Repairs	18,589		18,589
Pool Maintenance and Supplies	15,671	5,244	20,915
Miscellaneous Repairs and Supplies	13,490	5,298	18,788
Snow Removal	10,279		10,279
Lake Pumps and Maintenance	4,594		4,594
Fences	4,456		4,456
Utilities:			
Water and Sewer	57,911		57,911
Gas and Electric	18,542		18,542
Security	123,890		123,890
Management Fee	20,700		20,700
Legal and Audit	9,302		9,302
Administrative Expenses	8,482		8,482
Insurance	6,886		6,886
Telephone	1,970		1,970
Bad Debt	17		17
<u>Total Expenses</u>	<u>448,342</u>	<u>10,542</u>	<u>458,884</u>
<u>Revenues (Under) Over Expenses</u>	(11,139)	94,442	83,303
Beginning Fund Balances	<u>32,450</u>	<u>247,788</u>	<u>280,238</u>
<u>Fund Balances, December 31, 2013</u>	<u>\$ 21,311</u>	<u>\$ 342,230</u>	<u>\$ 363,541</u>

See Accompanying Notes to Financial Statements

SHENANDOAH ON SMOKY HILL ASSOCIATION
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Operating Fund	Replacement Fund	Total
<u>Cash Flows From Operating Activities:</u>			
<u>Net Revenues (Under) Over Expenses</u>	(\$ 11,139)	\$ 94,442	\$ 83,303
Changes in Assets and Liabilities:			
Decrease in Assessments Receivable - Net	1,547		1,547
Increase in Prepaid Expenses	(545)		(545)
Decrease in Interest Receivable		53	53
Decrease in Accounts Payable	(1,500)		(1,500)
Increase in Assessments Received in Advance	609		609
<u>Net Cash (Used) Provided By Operating Activities</u>	(11,028)	94,495	83,467
<u>Cash Flows Provided By Investing Activities:</u>			
Decrease in Certificates of Deposit		83,547	83,547
Net (Decrease) Increase in Cash and Cash Equivalents	(11,028)	178,042	167,014
<u>Cash and Cash Equivalents at Beginning of Year</u>	47,964	61,473	109,437
<u>Cash and Cash Equivalents at December 31, 2013</u>	\$ 36,936	\$ 239,515	\$ 276,451

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, 2013

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, 2013

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, 2013. 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.

As of December 31, 2013, the tax years that remain subject to examination by taxing authorities begin with December 31, 2010 for federal tax purposes and December 31, 2009 for state tax purposes.

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 2012, the Association paid Eagle Security \$124,112.00.

SHENANDOAH ON SMOKY HILL ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 16, 2014, 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, 2013
 (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, 2013
(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, 2013, the Association had accumulated \$342,230 in its replacement fund. The amount of assessments designated to fund the replacement fund for 2014 is \$120,000.

The study assumes the Replacement Fund balance at December 31, 2013 to be \$231,465 and recommends the annual contribution to the Replacement Fund for 2014 to be \$139,968.