

**SMOKY HILL  
HOMEOWNERS  
ASSOCIATION, INC.**

Financial Statements

December 31, 2012

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## Independent Auditor's Report

To the Board of Directors  
Smoky Hill Homeowners Association, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Smoky Hill Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses and changes in fund balances 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**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 judgement, 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, we express no such opinion. An audit also includes evaluating the 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 financial position of Smoky Hill Homeowners Association, Inc. as of December 31, 2012, 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.

Dix Barrett & Stiltner P.C.

Dix Barrett & Stiltner, P.C.

May 28, 2013

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Balance Sheet  
December 31, 2012

Assets

Cash and cash equivalents	\$ 78,888
Assessments receivable, net of allowance for doubtful accounts of \$15,000	15,494
Prepaid insurance	<u>663</u>
Total assets	\$ <u><u>95,045</u></u>

Liabilities and Fund Balance

Liabilities	
Prepaid assessments	\$ <u>1,034</u>
Total liabilities	1,034
Fund balance	<u>94,011</u>
Total liabilities and fund balance	\$ <u><u>95,045</u></u>

See notes to financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Statement of Revenues, Expenses and Changes in Fund Balance  
For the Year Ended December 31, 2012

Revenues	
Assessments from homeowners	\$ 82,080
Legal fees assessed	22,188
Interest income	179
Other income	<u>4,555</u>
Total revenues	<u>109,002</u>
Expenses	
Administrative expenses	1,949
Bad debt writeoffs	4,272
Coyote Park expense	451
Covenant enforcement and accounting	38,103
Dumpsters	6,225
Insurance	3,419
Legal fees	24,333
Miscellaneous	600
Postage	629
Printing	307
Social activities	536
Tax preparation	210
State and federal taxes	<u>39</u>
Total expenses	<u>81,073</u>
Excess of revenues over expenses	27,929
Fund balance - beginning of year	<u>66,082</u>
Fund balance - end of year	<u>\$ 94,011</u>

See notes to financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Statement of Cash Flows  
For the Year Ended December 31, 2012

Cash flows from operating activities:	
Excess of revenues over expenses	\$ 27,929
Adjustments to reconcile to cash provided by operating activities:	
Decrease (increase) in:	
Assessments receivable	(1,172)
Prepaid insurance	10
Increase (decrease) in:	
Accounts payable	(8,823)
Prepaid assessments	<u>(15,091)</u>
Cash provided by operating activities	<u>2,853</u>
Increase in cash and cash equivalents	2,853
Cash and cash equivalents - beginning of year	<u>76,035</u>
Cash and cash equivalents - end of year	<u>\$ 78,888</u>

See notes to financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements  
December 31, 2012

Note 1: Organization

Smoky Hill Homeowners Association, Inc. was incorporated in the State of Colorado on August 1, 1979. The Association, which consists of 1,368 residential homes and is located in Arapahoe County, Colorado, was formed to enforce the covenants and hold special events. The Association does not currently own any common property and therefore has no reserve funding requirements. The Smoky Hill Metro District includes the identical area as the Association and is responsible for the maintenance.

Note 2: Date of Managements' Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 28, 2013 the date that the financial statements were available to be issued.

Note 3: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting. Revenues and expenses are recognized in the period earned or incurred, respectively.

Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less at the date of acquisition, to be cash equivalents.

Accounting 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 reported period. Actual results may differ from those estimates which may be material to the financial statements.



SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements

December 31, 2012

Note 4: Members' Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years. For the year ended December 31, 2012, annual assessments were \$60 per unit.

The Association uses the allowance method to determine uncollectible assessments. The allowance is based on the prior years' experience and management's analysis of specific assessments receivable. At December 31, 2012, the allowance for uncollectible accounts was \$15,000.

Note 5: Federal and State Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2012. 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 at 4.63% by the State of Colorado.

The Association has adopted the new accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns for 2009, 2010 and 2011 remain open to examination by the taxing authorities. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 6: Contingencies

The Association is party to various legal actions normally associated with homeowners associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.