

**SMOKY HILL
HOMEOWNERS
ASSOCIATION, INC.**

Financial Statements

December 31, 2016 and
2015

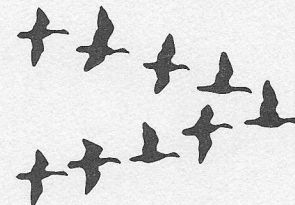
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Independent Auditor's Report

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 sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in fund balances and cash flows for the years 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.

Board of Directors
Smoky Hill Homeowners Association, Inc.

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, 2016 and 2015, 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.
Greenwood Village, Colorado
August 25, 2017

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Balance Sheets
 December 31, 2016
 (With Comparative Totals for 2015)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 131,986 | \$ 126,267 |
| Assessments receivable, net of allowance for doubtful accounts of \$20,000 | 14,339 | 14,022 |
| Prepaid insurance | <u>611</u> | <u>613</u> |
| Total assets | <u>\$ 146,936</u> | <u>\$ 140,902</u> |
| Liabilities and Fund Balance | | |
| Liabilities | | |
| Accounts payable | \$ 6,740 | \$ 6,385 |
| Prepaid assessments | <u>1,761</u> | <u>1,364</u> |
| Total liabilities | 8,501 | 7,749 |
| Fund balance | <u>138,435</u> | <u>133,153</u> |
| Total liabilities and fund balance | <u>\$ 146,936</u> | <u>\$ 140,902</u> |

The accompanying notes are an integral part of the financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Statements of Revenues, Expenses and Changes in Fund Balances
 For the Year Ended December 31, 2016
 (With Comparative Totals for 2015)

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------------|-------------------|
| Revenues | | |
| Assessments from homeowners | \$ 82,140 | \$ 82,080 |
| Legal fees assessed | 12,748 | 15,978 |
| Interest income | 124 | 129 |
| Other income | 1,660 | 3,620 |
| Total revenues | <u>96,672</u> | <u>101,807</u> |
| Expenses | | |
| Administrative expenses | 3,285 | 2,338 |
| Audit and tax preparation | 2,000 | 2,050 |
| Bad debt writeoffs | 5,915 | 4,730 |
| Clubhouse expenses | - | 952 |
| Coyote Park expense | 480 | 444 |
| Covenant enforcement and accounting | 38,718 | 37,799 |
| Dumpsters | 11,652 | 10,041 |
| Insurance | 3,143 | 3,148 |
| Legal fees | 15,436 | 18,112 |
| Meetings | 1,213 | 540 |
| Miscellaneous | - | 1,420 |
| Online database | 2,781 | 2,442 |
| Printing and postage | 3,586 | 3,265 |
| Social activities | 3,181 | 1,447 |
| Total expenses | <u>91,390</u> | <u>88,728</u> |
| Excess of revenues over expenses | 5,282 | 13,079 |
| Fund balance - beginning of year | <u>133,153</u> | <u>120,074</u> |
| Fund balance - end of year | <u>\$ 138,435</u> | <u>\$ 133,153</u> |

The accompanying notes are an integral part of the financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Statements of Cash Flows
 For the Year Ended December 31, 2016
 (With Comparative Totals for 2015)

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Excess of revenues over expenses | \$ 5,282 | \$ 13,079 |
| Adjustments to reconcile to cash provided by operating activities: | | |
| Decrease (increase) in: | | |
| Assessments receivable | (317) | (5,331) |
| Prepaid insurance | 2 | (4) |
| Increase (decrease) in: | | |
| Accounts payable | 355 | 957 |
| Prepaid assessments | 397 | 510 |
| | <u>5,719</u> | <u>9,211</u> |
| Cash provided by operating activities | 5,719 | 9,211 |
| Increase in cash and cash equivalents | 5,719 | 9,211 |
| Cash and cash equivalents - beginning of year | <u>126,267</u> | <u>117,056</u> |
| Cash and cash equivalents - end of year | <u>\$ 131,986</u> | <u>\$ 126,267</u> |

The accompanying notes are an integral part of the financial statements.

SMOKY HILL HOMEOWNERS ASSOCIATION, INC.

Notes to Financial Statements
December 31, 2016 and 2015

Note 1: Organization

Smoky Hill Homeowners Association, Inc. was incorporated in the State of Colorado on August 1, 1979. The Association, which consists of 1,369 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 August 25, 2017, 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, 2016 and 2015

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 years ended December 31, 2016 and 2015, 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, 2016 and 2015, the allowance for uncollectible accounts was \$20,000.

Note 5: Federal and State Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the years ended December 31, 2016 and 2015. 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 2013, 2014 and 2015 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.