

PAWNEE HILLS COMMUNITY ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2005



**CPA**

**Bruce L. Fosdick, CPA, PC**  
*Certified Public Accountant*

PAWNEE HILLS COMMUNITY ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pawnee Hills Community Association  
Elizabeth, Colorado

I have audited the accompanying Statement of Financial Position of Pawnee Hills Community Association as of December 31, 2005, and the related Statements of Activities 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 Pawnee Hills Community Association as of December 31, 2005, 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.

The supplementary information about future repairs and replacements on page 10 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have compiled the supplementary information from information that is the representation of management of Pawnee Hills Community Association, without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

*Bruce L. Fosdick, CPA, PC*

Bruce L. Fosdick, CPA PC  
Castle Rock, Colorado  
May 22, 2006



PAWNEE HILLS COMMUNITY ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

		<u>% of Revenue</u>
INCREASES IN UNRESTRICTED NET ASSETS		
Association Dues & Late Fees	\$ 73,431	99.89
Investment Income	<u>81</u>	<u>0.11</u>
Total Increases	73,512	100.00%
DECREASES IN UNRESTRICTED NET ASSETS		
Barn Expenses	1,613	2.19
Clubhouse Expenses	18,604	25.31
Committee Expenses	258	.35
Pool Expenses	6,787	9.23
General & Administrative Expense	29,160	39.67
Depreciation Expense - Note 1	<u>11,268</u>	<u>15.33</u>
Total Decreases	67,690	92.08
Net Decreases in Unrestricted Net Assets before Taxes		
	5,822	7.92
Provision for Income Taxes	<u>( - )</u>	<u>( - )</u>
Change in Unrestricted Net Assets	5,822	7.92
Beginning Unrestricted Net Assets	\$147,795	
Ending Unrestricted Net Assets	<u>\$153,617</u>	

The accompanying notes are part of this report.

PAWNEE HILLS COMMUNITY ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2005

Change in Unrestricted Net Assets		\$ 5,822
Adjustment to Reconcile Unrestricted Net Assets to Net Cash provided by Operating Activities		
Depreciation	11,268	
Change in Assets and Liabilities		
Decrease (Increase) in Accounts Receivable	(392)	
Increase (Decrease) in Accounts Payable	146	
Increase (Decrease) in Wages Payable & Payroll Taxes	(2,088)	
Increase (Decrease) in Deferred Revenues	<u>(133)</u>	
Total Adjustments		<u>8,801</u>
Net Cash Provided by Operating Activities		14,623
Cash Flows from Investing Activities:		
Purchase of Equipment		<u>(440)</u>
Net Increase (Decrease) in Cash		14,183
Cash at Beginning		<u>20,025</u>
Cash at End		\$ 34,208
Summary of Cash Accounts		
Undesignated		\$ 29,626
Designated for Future repairs and replacements		<u>4,582</u>
		<u>\$ 34,208</u>

The accompanying notes are part of this report.

**PAWNEE HILLS COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**Note 1 - Summary of Significant Accounting Policy**

The Pawnee Hills Community Association is a Homeowners Association, located in unincorporated Elizabeth, Colorado, incorporated to manage common property within the community. Common areas include the clubhouse, pool, barn, arena, equestrian trails and mailbox shelter. Pawnee Hills Community Association is responsible to preserve and maintain the common property for the 167 residential lots that comprise the community. The Association is controlled by a Board of Directors who are elected by the membership.

The Association uses the accrual method of accounting for financial statement presentation and the cash basis method for income tax reporting.

Accounts Receivable - Accounts Receivable are for assessed Homeowners dues, which have not been received. All are considered to be collectible by management and no allowance for bad debts has been set up. Accounts Receivable include current amounts due plus late charges and interest.

Cash and Cash Equivalents - For purposes of Cash Flow Statements, Cash and Cash Equivalents are bank accounts which can be immediately converted to cash. No Income Taxes or interest has been paid during the year.

Property and Equipment - Property and Equipment are those Capital purchases which are depreciated over their useful life using the straight line method of depreciation. Assets are listed at historical cost. If historical cost is not known, they have been listed at estimated values.

2005	Cost	Life	Depreciation	Accumulated Depreciation
Building	\$195,519	10-40 Years	\$ 5,615	\$135,368
Equipment	18,015	5-7 Years	588	16,953
Land	25,142		0	0
Improvements	<u>50,644</u>		<u>5,065</u>	<u>17,951</u>
	\$289,320		\$11,268	\$170,272

See also Note 3.

Accounts Payable - Those costs which were incurred during the year, but not paid until after the close of the fiscal year.

Income Taxes - The Association filed its income tax return as a homeowners' association in accordance with Internal Revenue Code Section 528 for the year ended December 31, 2005. Under that Section, the Association is not taxed on uniform assessments to members and other income received from association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest income and revenue received from nonmembers. See Note 2.

PAWNEE HILLS COMMUNITY ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2005

**Note 1 - Summary of Significant Accounting Policy (continued)**

Member Assessments - Association members are subject to monthly assessments of \$41 per lot, increased to \$43 per lot as of 1/1/06, to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in future years.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 2 - Income Taxes**

The Association is required to pay income taxes on those earnings, which are not associated with their exempt function status. Because of reporting difference, the amounts that are taxable are different.

		2005
Net Income per Books		5,822
Exempt Income	(72,906)	
Exempt Expenses	<u>64,758</u>	
		(8,148)
Timing Differences		
Revenue Accrued 12/05	(2,082)	
Revenue Accrued 12/04	1,557	
Expenses Accrued 12/05	1,720	
Expenses Accrued 12/04	<u>(3,663)</u>	
		(2,468)
		<hr/>
Income		(4,794)
Homeowners Association Exemption		<u>(100)</u>
Taxable Income		(4,894)
Tax		
Federal		0
Colorado		0

**Note 3 - Property and Equipment**

Assets were not capitalized prior to 1992 and no records existed to establish proper balances or prior depreciation that should have been taken. Estimates have been used based on appraisals by the Elbert County Assessor as of 1/1/90 - done some time in 1989. Accumulated Depreciation has been estimated based on assets being donated in 1980, when deeds were transferred.



PAWNEE HILLS COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2005

**Note 4 - Future Major Repairs and Replacements**

During the current year, the Association adopted a program to begin accumulating funds for estimated future major repairs and replacements. The Association made an initial transfer of approximately \$4,582 to the replacement fund in 2005 and projects additions of approximately \$8,627 for the year ended December 31, 2006. The Association's accumulated funds, which aggregate \$4,582 at December 31, 2005, are held in a separate account and are generally not available for operating purposes.

The funding program was based on a study performed by Aspen Reserve Specialities in June 2005 to estimate the remaining useful lives and the replacement costs of the common property components.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of future replacement costs. 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 the 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 available.

SUPPLEMENTARY INFORMATION

PAWNEE HILLS COMMUNITY ASSOCIATION  
SCHEDULE OF DECREASES IN UNRESTRICTED NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>2005</u>	<u>% of</u> <u>Revenue</u>
Barn Expenses		
Arena Maintenance	1,068	1.45
Barn Maintenance	525	.71
Equestrian Expenses	<u>20</u>	<u>.03</u>
Total Barn Expenses	1,613	2.19
Clubhouse Expenses		
Management Fees	10,051	13.67
Repairs & Upkeep	<u>8,553</u>	<u>11.64</u>
Total Clubhouse Expenses	18,604	25.31
Committee Expenses		
Activities Committee Expenses	<u>258</u>	<u>.35</u>
	258	.35
Pool Expenses		
Repairs	1,405	1.91
Supplies	2,485	3.38
Utilities	<u>2,897</u>	<u>3.94</u>
Total Pool Expenses	6,787	9.23
General and Administrative Expenses		
Accounting & Bookkeeping	11,691	15.90
Insurance	4,837	6.58
Legal	6,905	9.39
Meeting Expenses	234	0.32
Postage	982	1.34
Office Expenses	1,504	2.05
Reserve Study	1,804	2.45
Telephone	610	0.83
Trash	100	0.14
Other	<u>493</u>	<u>0.67</u>
Total Gen. and Admin. Expenses	29,160	39.67

**PAWNEE HILLS COMMUNITY ASSOCIATION  
SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

Aspen Reserve Specialities (ARS) conducted a study in June 2005, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest at 3%, net of taxes, on amounts funded for future major repairs and replacements.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>Components of Fund Balance December 31, 2005</u>
Roofs	0 to 12	\$ 14,863	\$ -
Drives, Signs, Landscaping Mailboxes, Storage	0 to 6	38,500	-
Recreations Facilities - BBQ Pit	0	1,750	-
Exterior Siding, Decks, Fencing, Windows	0 to 20	79,355	-
Pool, Sauna, Steam Room	0 to 7	22,875	-
Courts	0 to 21	45,000	-
Furniture and Equipment	1	7,500	-
Interior Flooring, Appliances, Cabinets, Counters	3 to 4	20,800	-
		<u>\$ 230,643</u>	<u>\$ 4,582</u>

ARS found "the Association Reserve Fund to be in a less than ideal financial situation at this point in time." The Association has taken steps to remedy this situation, including dues increases of \$11.05 per month per unit, and projected additions to the Reserve Fund of \$8,627 in 2006.