

MICHIGAN HILL OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2013 and 2012

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Sotiros & Sotiros, LLC

Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Michigan Hill Owners Association, Inc.

We have reviewed the accompanying balance sheets of Michigan Hill Owners Association, Inc., a Colorado non-profit corporation, as of December 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information included in the accompanying Schedules I and II is presented only for purposes of additional analysis and has not been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.


Sotiros & Sotiros, LLC

February 4, 2014

MICHIGAN HILL OWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 47,491	\$ 46,371
Investments	6,594	13,348
Member assessments receivable, net of allowance for doubtful accounts of \$233 and \$215	56	1,061
Income taxes receivable	97	97
Prepaid expenses	823	709
TOTAL CURRENT ASSETS	<u>55,061</u>	<u>61,586</u>
EQUIPMENT		
Less accumulated depreciation	<u>(12,027)</u>	<u>(9,349)</u>
	15,233	17,361
TOTAL ASSETS	<u>\$ 70,294</u>	<u>\$ 78,947</u>
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES (ALL CURRENT)		
Accounts payable	\$ -	\$ 1,845
Deferred assessment revenue	65	10
TOTAL LIABILITIES	<u>65</u>	<u>1,855</u>
FUND BALANCES	<u>70,229</u>	<u>77,092</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 70,294</u>	<u>\$ 78,947</u>

MICHIGAN HILL OWNERS ASSOCIATION, INC.
 STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Assessments	\$ 47,250	\$ 47,425
Late fees and miscellaneous income	314	65
Interest income	44	245
Total Revenues	<u>47,608</u>	<u>47,735</u>
EXPENSES		
Annual meeting expenses	349	180
Auditor	1,400	-
Auto travel reimbursement	-	50
Bad debt expense	18	40
Bank fees	30	652
Board meetings	80	85
Bookkeeper	1,900	500
Burn pit expense	-	1,225
Classified advertising	-	20
Culvert and ditches	850	1,275
Depreciation	2,678	2,671
Donations	150	-
Easement grant and agreement	4,300	-
Fencing repairs	3,150	-
General road maintenance	-	1,850
Grader fuel	2,632	1,514
Grader operator	2,788	-
Grader repairs	3,987	3,194
Gravel	9,944	7,436
Insurance	2,080	1,864
Lawyer	4,099	12,803
Licenses, registrations, etc.	18	55
Office supplies	367	610
Pond expenses	1,060	645
Postage and delivery	236	511
Printing	143	173
Real estate taxes	1,994	1,977
Recording fees	49	55
Septic dump station maintenance	760	-
Snow plowing	7,380	6,115
Surveyor	1,585	1,200
Website	279	229
Weed control	165	99
Total Expenses	<u>54,471</u>	<u>47,028</u>
Excess (Deficit) of Revenues Over Expenses	(6,863)	707
BEGINNING FUND BALANCES	<u>77,092</u>	<u>76,385</u>
ENDING FUND BALANCES	<u>\$ 70,229</u>	<u>\$ 77,092</u>

MICHIGAN HILL OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (Deficit) of Revenues Over Expenses	\$ (6,863)	\$ 707
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,678	2,671
(Increase) decrease in:		
Member assessments receivable, net of allowance for	1,005	349
Income taxes receivable	-	(56)
Prepaid expenses	(114)	(26)
Increase (decrease) in:		
Accounts payable	(1,845)	1,845
Customer prepayments	55	(165)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(5,084)</u>	<u>5,325</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale/redemption of certificate of deposit	6,754	2,463
Acquisition of equipment	(550)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>6,204</u>	<u>2,463</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	1,120	7,788
CASH AT BEGINNING OF YEAR	<u>46,371</u>	<u>38,583</u>
CASH AT END OF YEAR	<u>\$ 47,491</u>	<u>\$ 46,371</u>

MICHIGAN HILL OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 – NATURE OF OPERATIONS

Michigan Hill Owners Association, Inc. (the Association) was incorporated January 15, 1980 as a Colorado nonprofit corporation. Located in Park County, near Jefferson, Colorado, the purpose of the Association is to organize and operate recreational and social facilities and activities, and to maintain roads within Michigan Hill Subdivision exclusively for members of the MHOA, their families and guests.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association uses the accrual method of accounting.

Cash and Cash Equivalents

All checking and savings accounts are considered cash equivalents by the Association for the purpose of the Statements of Cash Flows since all funds are highly liquid with no stated maturities.

Investments

The Association has invested certain excess funds in certificates of deposit. Because these certificates of deposit are intended to fund expenditures and may provide a ready source of cash when required, these investments are classified as trading. Accordingly, these investments are reported on these financial statements at fair value, and all realized and unrealized gains and losses are included in current period earnings.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are more than six months delinquent.

The Association utilizes the allowance method of recognizing the future potential uncollectibility of member assessments receivable. This reserve is calculated based on the identified uncollectible accounts at year end.

MICHIGAN HILL OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful life of the depreciable assets are:

	<u>Years</u>
Equipment	7 - 10

Income Taxes

Homeowners' associations may be taxed either as homeowner's associations or regular corporations. For the years ended December 31, 2013 and 2012, the Association was taxed as a homeowners' association. By filing as a homeowners' association, taxes may be due on non-exempt function income such as interest earnings at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association is subject to taxation in the U.S. and Colorado. As of December 31, 2013 the Association's tax years for years ended December 31, 2012, 2011, and 2010 are subject to examination by the tax authorities. As of December 31, 2013, the Association is no longer subject to U.S. federal and Colorado examinations by tax authorities for years before the year ended December 31, 2010.

Deferred Assessment Revenue

Deferred revenue represents prepaid assessments, and is primarily composed of payments received in advance for the billing of the next fiscal year.

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.

MICHIGAN HILL OWNERS ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Subsequent Events

The Association evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through February 4, 2014, the date on which the financial statements were available to be issued.

NOTE 3 – INVESTMENTS

The Association's investments were comprised of the following certificates of deposit:

	<u>12/31/13</u>	<u>12/31/12</u>
Certificate of deposit, matured January 6, 2013 bearing interest at 3% per annum	\$ -	\$ 6,770
Certificate of deposit, maturing on January 8, 2014 bearing interest at .25% per annum	<u>6,594</u>	<u>6,578</u>
Total Investments	\$ <u>6,594</u>	\$ <u>13,348</u>

SUPPLEMENTARY INFORMATION

ASSOCIATION, INC.
 BUDGET (NON-GAAP BASIS) TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2013

SCHEDULE I

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 47,250	\$ 47,250	\$ -
Late fees and miscellaneous income	-	314	314
Interest income	-	44	44
Total Revenues	<u>47,250</u>	<u>47,608</u>	<u>358</u>
EXPENSES			
Annual meeting expenses	350	349	1
Auditor	-	1,400	(1,400)
Bad debt expense	-	18	(18)
Bank fees	-	30	(30)
Board meetings	90	80	10
Bookkeeper	1,800	1,900	(100)
Burn pit expense	750	-	750
Culvert and ditches	-	850	(850)
Depreciation	-	2,678	(2,678)
Donations	-	150	(150)
Easement grant and agreement	-	4,300	(4,300)
Fencing repairs	-	3,150	(3,150)
General road maintenance	2,000	-	2,000
Grader fuel	1,800	2,632	(832)
Grader operator	2,500	2,788	(288)
Grader repairs	2,000	3,987	(1,987)
Gravel	7,000	9,944	(2,944)
Insurance	1,980	2,080	(100)
Lawyer	10,000	4,099	5,901
Licenses, registrations, etc.	50	18	32
Office supplies	300	367	(67)
Pond expenses	800	1,060	(260)
Postage and delivery	300	236	64
Printing	200	143	57
Real estate taxes	2,000	1,994	6
Recording fees	100	49	51
Septic dump station maintenance	-	760	(760)
Snow plowing	12,400	7,380	5,020
Surveyor	-	1,585	(1,585)
Website	100	279	(179)
Weed control	200	165	35
Work day	150	-	150
Total Expenses	<u>46,870</u>	<u>54,471</u>	<u>(7,601)</u>
Excess (Deficit) of Revenues Over Expenses	<u>380</u>	<u>(6,863)</u>	<u>(7,243)</u>

MICHIGAN HILL OWNERS ASSOCIATION, INC.
 BUDGET (NON-GAAP BASIS) TO ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2012

SCHEDULE II

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Assessments	\$ 47,250	\$ 47,425	\$ 175
Late fees and miscellaneous income	-	65	65
Interest income	-	245	245
Total Revenues	<u>47,250</u>	<u>47,735</u>	<u>485</u>
EXPENSES			
Annual meeting expenses	350	180	170
Auto travel reimbursement	100	50	50
Bad debt expense	-	40	(40)
Bank fees	-	652	(652)
Board meetings	50	85	(35)
Bookkeeper	-	500	(500)
Burn pit expense	750	1,225	(475)
Classified advertising	-	20	(20)
Culvert and ditches	-	1,275	(1,275)
Depreciation	-	2,671	(2,671)
General road maintenance	7,000	1,850	5,150
Grader fuel	1,800	1,514	286
Grader repairs	4,240	3,194	1,046
Gravel	5,500	7,436	(1,936)
Insurance	1,821	1,864	(43)
Lawyer	6,000	12,803	(6,803)
Licenses, registrations, etc.	40	55	(15)
Office supplies	100	610	(510)
Pond expenses	800	645	155
Postage and delivery	200	511	(311)
Printing	60	173	(113)
Real estate taxes	2,200	1,977	223
Recording fees	110	55	55
Snow plowing	12,900	6,115	6,785
Surveyor	-	1,200	(1,200)
Website	100	229	(129)
Weed control	200	99	101
Work day	150	-	150
Total Expenses	<u>44,471</u>	<u>47,028</u>	<u>(2,557)</u>
Excess of Revenues Over Expenses	<u>2,779</u>	<u>707</u>	<u>(2,072)</u>