

Hillcrest at Homestead
Homeowners Association
Financial Statements
And Supplementary Information
For the Year Ended October 31, 2011

With Independent Auditors' Report

Hillcrest at Homestead Homeowners Association

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Brashier & Foss, CPAs, PC

Independent Auditors' Report

To the Board of Directors of
Hillcrest at Homestead Homeowners Association
Centennial, Colorado

We have audited the accompanying balance sheet of Hillcrest at Homestead Homeowners Association as of October 31, 2011 and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting those 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillcrest at Homestead Homeowners Association as of October 31, 2011 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 on Future Major Repairs and Replacements (Unaudited) on pages nine and ten is not a required part of the basic financial statements of Hillcrest at Homestead Homeowners Association but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Brashier & Foss, CPAs, PC

Brashier & Foss, CPAs, PC

January 24, 2012

Hillcrest at Homestead Homeowners Association
Balance Sheet
October 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 33,215	\$ 24,093	\$ 57,308
Held-to-Maturity Investments		330,675	330,675
Accrued Interest Receivable		451	451
Assessments Receivable	678		678
Prepaid Insurance	1,762		1,762
Prepaid Income Taxes	245		245
Furniture, Net of Accumulated Depreciation of \$3,543	6,378		6,378
Total Assets	<u><u>\$ 42,278</u></u>	<u><u>\$ 355,219</u></u>	<u><u>\$ 397,497</u></u>
LIABILITIES AND FUND BALANCE			
Accounts Payable	\$ 5,321	\$ -	\$ 5,321
Assessments Received in Advance	5,094		5,094
Total Liabilities	<u>10,415</u>	<u>-</u>	<u>10,415</u>
Fund Balance	<u>31,863</u>	<u>355,219</u>	<u>387,082</u>
Total Liabilities and Fund Balance	<u><u>\$ 42,278</u></u>	<u><u>\$ 355,219</u></u>	<u><u>\$ 397,497</u></u>

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

Hillcrest at Homestead Homeowners Association
Statement of Revenues, Expenses,
And Changes in Fund Balance
For the Year Ended October 31, 2011

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 187,776	\$ 107,424	\$ 295,200
Interest		1,814	1,814
Recovery of Bad Debt	2,500		2,500
Other	806		806
Total Revenues	191,082	109,238	300,320
EXPENSES			
Grounds Maintenance	62,694		62,694
Insurance	42,329		42,329
Utilities	26,574		26,574
Trash Removal	17,095		17,095
Management Fee	15,000		15,000
Swimming Pool	13,146		13,146
Snow Removal	5,750		5,750
Administrative	3,404		3,404
Professional Fees	3,009		3,009
Depreciation	1,417		1,417
Major Repairs and Replacements		66,179	66,179
Total Expenses	190,418	66,179	256,597
Excess of Revenues Over Expenses	664	43,059	43,723
Fund Balance, November 1, 2010	31,199	312,160	343,359
Fund Balance, October 31, 2011	<u>\$ 31,863</u>	<u>\$ 355,219</u>	<u>\$ 387,082</u>

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

Hillcrest at Homestead Homeowners Association
Statement of Cash Flows
For the Year Ended October 31, 2011

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 664	\$ 43,059	\$ 43,723
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	1,417		1,417
(Increase) decrease in:			
Accrued Interest Receivable		(282)	(282)
Assessments Receivable	2,110		2,110
Prepaid Insurance	(1,762)		(1,762)
Increase (decrease) in:			
Accounts Payable	(22,279)		(22,279)
Assessments Received in Advance	117		117
Net Cash Provided (Used) by Operating Activities	<u>(19,733)</u>	<u>42,777</u>	<u>23,044</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Purchase of Held-to-Maturity Investments		(40,675)	(40,675)
Net Cash Used by Investing Activities	<u>-</u>	<u>(40,675)</u>	<u>(40,675)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund Accounts	23,535	(23,535)	-
Net Cash Provided (Used) by Financing Activities	<u>23,535</u>	<u>(23,535)</u>	<u>-</u>
Net Increase (Decrease) in Cash	3,802	(21,433)	(17,631)
Cash, November 1, 2010	<u>29,413</u>	<u>45,526</u>	<u>74,939</u>
Cash, October 31, 2011	<u><u>\$ 33,215</u></u>	<u><u>\$ 24,093</u></u>	<u><u>\$ 57,308</u></u>
Supplemental Information			
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2011

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hillcrest at Homestead Homeowners Association (the Association) was incorporated in February 1986, under the laws of the State of Colorado. The purpose of the Association is to promote the recreation, health, safety, and welfare of the residents of the properties and for the improvement and maintenance of the common areas. On November 1, 1992 the Association consisted of 95 townhome units. A developer purchased the remaining lots, built and sold townhomes. Sixteen units were added to the Association in 1993. At October 31, 1994, Hillcrest was completely developed with 123 units located within certain tracts of property described in Homestead Farms Filing 7, Arapahoe County, Colorado.

Funds

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

<i>Operating Fund</i>	This fund is used to account for financial resources available for the general operations of the Association.
<i>Replacement Fund</i>	This fund is used to accumulate financial resources designated for future major repairs and replacements.

Basis of Accounting

Both the accompanying financial statements and related corporate income tax returns have been prepared in accordance with the accrual method of accounting.

Cash and Cash Equivalents

Cash includes demand deposits with banks and other institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits such as money market accounts not subject to withdrawal penalties.

Concentration of Credit Risk

Dues from the homeowners of the Association are the only source of accounts receivable. The assessments receivable balance due may be secured by a lien upon the owner's unit.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2011

Note 1. Nature of Operations and Summary of Significant Accounting Policies - continued

Allowance for Doubtful Accounts

The Association's policy is to enforce collection of assessments by retaining legal counsel and the placing of liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances and that the allowance for doubtful accounts method of providing for assessments which may not be collected is not considered necessary.

Common Area

Common property and equipment conveyed by the Declarant to the members are not reflected on the Association's financial statements. Transfer of any common area must have approval of two-thirds of the members. Major repairs and replacements to the common property are expensed in accordance with generally accepted accounting principles applicable to homeowner's associations. The common property includes land, improvements, swimming pool, and private streets.

Furniture, fixtures, and equipment are recorded at acquisition cost. Depreciation is computed on a straight-line method over an estimated useful life of seven years.

Interest Earned

The Board's policy is to allocate interest income to the fund where the cash or government obligation is located.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Note 2. Contributed Capital

Article V, Section 14 of the Declarations requires the owner of each lot to make non-refundable payment to the Association in an amount equal to one-sixth of the annual common assessment in effect at the time of closing. These payments are held, without interest, by the Association as a working fund. Upon the transfer of a unit, an owner shall be entitled to a credit from his transferee for this payment. Article V, Section 14 also requires the Association to maintain these funds in a separate account.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2011

Note 3. Held to Maturity Investments

The Association has invested funds in six certificates of deposit and 2 government backed mortgage securities. The Association intends to hold these investments until maturity.

<u>Description</u>	<u>Face Value</u>	<u>Dates of Maturity</u>	<u>Interest Rate</u>
Certificates of Deposit	\$285,000	2/2012 to 9/2021	0.35% to 1.50%
Freddie Mac	25,271	9/2041	4.00%
FNMA	<u>20,404</u>	10/2041	4.00%
Total	<u>\$330,675</u>		

Note 4. Owners' Assessments

Monthly assessments to owners were \$200 for the year ended October 31, 2011. Approximately 36% of the total assessments were designated to the replacement fund. The annual budget and assessments of owners are determined by the Board and approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The 2011/2012 approved budget reflects an increase of monthly assessments to \$250.

Note 5. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. The amount to be funded is determined at the discretion of the Board of Directors. Accumulated funds are held in separate investment accounts and are not available for expenditures for normal operations.

A reserve study update was conducted by an engineering firm in July 2005, to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on the study.

The Board is funding major repairs and replacements over their remaining useful lives based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from the estimated future expenditures and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, and, subject to membership approval, pass special assessments, or delay major repairs and replacements until funds are available.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2011

Note 6. Federal and State Corporate Income Taxes

The Association has filed its income tax returns for the year ended October 31, 2011 as a homeowners' association in accordance with Internal Revenue Code section 528. Under that section, the Association is not taxed on uniform assessments to members or other income received from Association members which is a function of their membership in the Association. The Association is taxed at the rate of 34.63% on its nonexempt function income, which includes interest income and revenue from nonmembers. The Association incurred no income tax expense for the year ended October 31, 2011.

The choice of filing as a regular corporation or as a homeowners' association is based primarily on the policy of tax minimization.

The Association adopted the provisions of FASB ASC Topic 740 Income Taxes. ASC 740 prescribes a more-than-likely-not threshold for financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. ASC 740 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated tax positions, accounting for income taxes in interim periods and income tax disclosures.

At October 31, 2011, the Association had no interest or penalties recognized in the Balance Sheet or the Statement of Revenues and Expenses. Additionally, the Association has no uncertain tax positions for which a reasonable possibility exists that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of October 31, 2011.

Note 7. Contingencies

Hillcrest at Homestead Homeowners Association may become a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments. The aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

Note 8. Evaluation of Subsequent Events

Subsequent events have been evaluated through January 24, 2012, which is the date the financial statements were available to be issued.

**Hillcrest at Homestead Homeowners Association
Supplementary Information on Future
Major Repairs and Replacements (Unaudited)
October 31, 2011**

Bornengineering conducted a reserve study update in July 2005 to estimate the remaining useful lives and the replacement costs of the components of common property. An inflation rate of 4% was used in computing estimated future replacement cost. Interest was estimated at 3.6% per annum.

The following table is based on the study and presents significant information about the components of common property. No revisions have been made to the information except the estimated remaining useful lives.

<u>Components</u>	<u>Number of Cycles</u>	<u>Occurs Every</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Cost (Per Cycle)</u>
<u>PAVING AND CURBING</u>				
Driving Lanes:				
Seal Coat/Crack filling	4	5 Yrs	1	\$ 25,200
Replacement			15	151,200
<u>Flatwork</u>				
Walkways	7	3 Yrs	0	6,180
Drain Pans	7	3 Yrs	0	8,424
Pool Deck-Replace	4	5 Yrs	0	2,600
<u>LANDSCAPING</u>				
Street Signage - Replace	2	15 Yrs	0	5,000
Wood Signs - Replace	2	10 Yrs	3	7,500
Timber Retaining Walls-Replace	2		4	11,500
Stone Retaining Walls-Repair	3	6 Yrs	0	2,880
Perimeter Fence-Stain & Seal	4	5 Yrs	0	20,750
Perimeter Fence-Replace			10	150,023
Repair Pool Fence	4	5 Yrs	1	1,800
Replace Pool Fence			9	7,500
Cluster Box Units- Replace			6	11,700
Landscape	21	1 Yr	0	7,500
<u>FACADE</u>				
Wood Siding- Paint & Repair	4-5	5 Yrs	0	218,880
Brick Veneer	3	7 Yrs	0	1,000

See independent auditors' report.

Hillcrest at Homestead Homeowners Association
Supplementary Information on Future
Major Repairs and Replacements (Unaudited)
October 31, 2011

<u>Components</u>	<u>Number of Cycles</u>	<u>Occurs Every</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Cost (Per Cycle)</u>
<u>ROOFING</u>				
Pool House Roof - Replace			0	1,050
Gutters & Downspouts - Replace			0	1,000
<u>AMENITIES</u>				
Swimming Pool - Resurface	3	10 Yrs	0	16,875
Pool Cover - Replace	2	10 Yrs	4	5,500
Coping Stones & Sealant - Replace			8	6,000
Restrooms - Refurbish	2	10 Yrs	2	4,000
Pool Furniture - Replace	3	6 Yrs	0	1,000
<u>MECHANICAL</u>				
Pool Heater - Replace			10	3,500
Pool Filters - Replace			8	2,000
Pool Pump - Replace	3	6 Yrs	2	1,000
Water Heater - Replace			6	<u>1,000</u>
				<u>\$ 682,562</u>

See independent auditors' report.