

**Hillcrest at Homestead
Homeowners Association**

Financial Statements
For the Year Ended October 31, 2012

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, 2012 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, 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.

Management has omitted the Supplementary Information about Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Brashier & Foss, CPAs, PC

Brashier & Foss, CPAs, PC
Highlands Ranch, Colorado

January 23, 2013

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Hillcrest at Homestead Homeowners Association
Balance Sheet
October 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 33,239	\$ 45,773	\$ 79,012
Held-to-Maturity Investments		382,591	382,591
Accrued Interest Receivable		564	564
Assessments Receivable	4,606		4,606
Prepaid Insurance	4,879		4,879
Furniture, Net of Accumulated Depreciation of \$3,543	4,960		4,960
Total Assets	<u><u>\$ 47,684</u></u>	<u><u>\$ 428,928</u></u>	<u><u>\$ 476,612</u></u>
LIABILITIES AND FUND BALANCE			
Accounts Payable	\$ 8,512	\$ -	\$ 8,512
Assessments Received in Advance	9,278		9,278
Income Taxes Payable	256		256
Total Liabilities	<u>18,046</u>	<u>-</u>	<u>18,046</u>
Fund Balance	<u>29,638</u>	<u>428,928</u>	<u>458,566</u>
Total Liabilities and Fund Balance	<u><u>\$ 47,684</u></u>	<u><u>\$ 428,928</u></u>	<u><u>\$ 476,612</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, 2012**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Member Assessments	\$ 252,460	\$ 110,390	\$ 362,850
Interest		3,229	3,229
Other	1,910		1,910
 Total Revenues	 <u>254,370</u>	 <u>113,619</u>	 <u>367,989</u>
 EXPENSES			
Grounds Maintenance	63,284		63,284
Insurance	93,896		93,896
Utilities	29,542		29,542
Trash Removal	18,611		18,611
Management Fee	15,000		15,000
Swimming Pool	13,225		13,225
Snow Removal	13,359		13,359
Administrative	4,211		4,211
Professional Fees	3,795		3,795
Depreciation	1,417		1,417
Income Taxes	256		256
Major Repairs and Replacements		39,910	39,910
 Total Expenses	 <u>256,596</u>	 <u>39,910</u>	 <u>296,506</u>
 Excess (Deficit) of Revenues Over Expenses	 (2,226)	 73,709	 71,483
 Fund Balance, November 1, 2011	 <u>31,864</u>	 <u>355,219</u>	 <u>387,083</u>
 Fund Balance, October 31, 2012	 <u><u>\$ 29,638</u></u>	 <u><u>\$ 428,928</u></u>	 <u><u>\$ 458,566</u></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, 2012

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ (2,226)	\$ 73,709	\$ 71,483
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	1,417		1,417
(Increase) decrease in assets:			
Accrued Interest Receivable		(112)	(112)
Assessments Receivable	(3,928)		(3,928)
Prepaid Insurance	(3,117)		(3,117)
Prepaid Income Taxes	245		245
Increase (decrease) in liabilities:			
Accounts Payable	3,193		3,193
Assessments Received in Advance	4,184		4,184
Income Taxes Payable	256		256
Net Cash Provided by Operating Activities	<u>24</u>	<u>73,597</u>	<u>73,621</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Purchase of Held-to-Maturity Investments		(51,917)	(51,917)
Net Cash Used by Investing Activities	<u>-</u>	<u>(51,917)</u>	<u>(51,917)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	24	21,680	21,704
Cash and Cash Equivalents, November 1, 2011	33,215	24,093	57,308
Cash and Cash Equivalents, October 31, 2012	<u>\$ 33,239</u>	<u>\$ 45,773</u>	<u>\$ 79,012</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, 2012

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.

See independent auditors' report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2012

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. Held to Maturity Investments

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

See independent auditors' report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2012

Note 2. Held to Maturity Investments - continued

<u>Description</u>	<u>Face Value</u>	<u>Dates of Maturity</u>	<u>Interest Rate</u>
Certificates of Deposit	\$341,244	2/2013 to 9/2017	0.35% to 1.42%
Freddie Mac	21,097	9/2041	4.00%
FHLMC	20,250	2/2042	3.50%
Total	<u>\$382,591</u>		

Note 3. Owners' Assessments

Monthly assessments to owners were \$200 for the month of November 2011 and \$250 for the remaining eleven months. Approximately 30% 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 increase in monthly assessments as of December 1, 2011 was to offset the cost of an extra buy-down insurance policy purchased for the roof replacement. The 2012/2013 approved budget reflects a decrease in monthly assessments to \$225.

Note 4. 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.

The Association has not recently conducted a reserve study update to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

See independent auditors' report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2012

Note 5. Federal and State Corporate Income Taxes

Homeowners may be taxed either as homeowners' associations or as regular corporations. For the year ended October 31, 2012, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates of 15% and 4.63%, respectively. A membership loss carry forward of \$120 is available to offset membership income in future years if the Association files as a regular corporation. The Association incurred a combined income tax expense of \$256 for the year ended October 31, 2012.

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

Note 6. Accounting for Uncertainty in Income Taxes

The Association adopted the provisions of FASB ASC Topic 740 Income Taxes. ASC 740 prescribes a more-likely-than-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 with tax positions, accounting for income taxes in interim periods and income tax disclosures.

At October 31, 2012, the Association had no income tax related interest or penalties recognized in the balance sheet or the statement of revenues and expenses and changes in fund balance. Additionally, the Association has no uncertain tax positions for which a reasonable possibility exists that the total amounts of unrecognized tax liabilities will significantly increase or decrease within 12 months of October 31, 2012.

Tax years that remain subject to examination by taxing authorities are years 2008/2009 and forward for the United States of America, and year 2007/2008 and forward for the State of Colorado.

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.

See independent auditors' report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2012

Note 8. Evaluation of Subsequent Events

Subsequent events have been evaluated through January 23, 2013, which is the date the financial statements were available to be issued.

See independent auditors' report.