

**Hillcrest at Homestead
Homeowners Association**

Financial Statements
For the Year Ended October 31, 2013

With Independent Auditor's Report

Hillcrest at Homestead Homeowners Association

Table of Contents

	Page
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheet	3
Statement of Revenues, Expenses, And Changes in Fund Balance	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10

N.F. Foss, CPA, PC

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hillcrest at Homestead Homeowners Association, which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 from 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 judgment, 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 appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Hillcrest at Homestead Homeowners Association as of December 31, 2013, 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted that 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.

N.F. Foss, CPA, PC

N.F. Foss, CPA, PC
Highlands Ranch, Colorado

March 26, 2014

Hillcrest at Homestead Homeowners Association
Balance Sheet
October 31, 2013

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 166,971	\$ 226,627	\$ 393,598
Held-to-Maturity Investments		291,069	291,069
Accrued Interest Receivable		347	347
Assessments Receivable	48,868		48,868
Prepaid Expenses	6,566		6,566
Furniture, Net of Accumulated Depreciation of \$6,378	<u>3,543</u>		<u>3,543</u>
Total Assets	<u><u>\$ 225,948</u></u>	<u><u>\$ 518,043</u></u>	<u><u>\$ 743,991</u></u>
LIABILITIES AND FUND BALANCE			
Accounts Payable - Trade	\$ 4,064	\$ -	\$ 4,064
Roof Project Payable	179,625		179,625
Assessments Received in Advance	9,604		9,604
Income Taxes Payable	<u>434</u>		<u>434</u>
Total Liabilities	<u>193,727</u>	<u>-</u>	<u>193,727</u>
Fund Balance	<u>32,221</u>	<u>518,043</u>	<u>550,264</u>
Total Liabilities and Fund Balance	<u><u>\$ 225,948</u></u>	<u><u>\$ 518,043</u></u>	<u><u>\$ 743,991</u></u>

See accompanying notes to the financial statements and independent auditor's report.

Hillcrest at Homestead Homeowners Association
Statement of Revenues, Expenses,
And Changes in Fund Balance
For the Year Ended October 31, 2013

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 214,252	\$ 117,848	\$ 332,100
Roof Assessment	305,965		305,965
Interest		3,315	3,315
Other	543		543
	<u>520,760</u>	<u>121,163</u>	<u>641,923</u>
Total Revenues			
EXPENSES			
Roofs	305,965		305,965
Grounds Maintenance	62,468		62,468
Insurance	54,190		54,190
Utilities	24,600		24,600
Trash Removal	19,459		19,459
Management Fee	15,600		15,600
Swimming Pool	10,827		10,827
Professional Fees	9,762		9,762
Snow Removal	7,188		7,188
Administrative	6,267		6,267
Depreciation	1,417		1,417
Income Taxes	434		434
Major Repairs and Replacements		32,048	32,048
	<u>518,177</u>	<u>32,048</u>	<u>550,225</u>
Total Expenses			
Excess of Revenues Over Expenses	2,583	89,115	91,698
Fund Balance, November 1, 2012	29,638	428,928	458,566
Fund Balance, October 31, 2013	<u>\$ 32,221</u>	<u>\$ 518,043</u>	<u>\$ 550,264</u>

See accompanying notes to the financial statements and independent auditor's report.

Hillcrest at Homestead Homeowners Association
Statement of Cash Flows
For the Year Ended October 31, 2013

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 2,583	\$ 89,115	\$ 91,698
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	1,417		1,417
(Increase) decrease in assets:			
Accrued Interest Receivable		217	217
Assessments Receivable	(44,262)		(44,262)
Prepaid Expenses	(1,687)		(1,687)
Increase (decrease) in liabilities:			
Accounts Payable	(4,448)		(4,448)
Roof Project Payable	179,625		179,625
Assessments Received in Advance	326		326
Income Taxes Payable	178		178
Net Cash Provided by Operating Activities	<u>133,732</u>	<u>89,332</u>	<u>223,064</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Maturity of Held-to-Maturity Investments		91,522	91,522
Net Cash Provided by Investing Activities	<u>-</u>	<u>91,522</u>	<u>91,522</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	133,732	180,854	314,586
Cash and Cash Equivalents, November 1, 2012	<u>33,239</u>	<u>45,773</u>	<u>79,012</u>
Cash and Cash Equivalents, October 31, 2013	<u><u>\$ 166,971</u></u>	<u><u>\$ 226,627</u></u>	<u><u>\$ 393,598</u></u>
Supplemental Information			
Interest Paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income Taxes Paid	<u><u>\$ 256</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 256</u></u>

See accompanying notes to the financial statements and independent auditor's report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2013

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 auditor's report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2013

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 certificates of deposit and government backed mortgage securities. The Association intends to hold these investments until maturity.

See independent auditor's report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2013

Note 2. Held to Maturity Investments - continued

<u>Description</u>	<u>Net Cost</u>	<u>Dates of Maturity</u>	<u>Interest Rate</u>
Certificates of Deposit	\$270,819	5/28/2014 to 2/16//2022	0.90% to 4.15%
FHLMC	<u>20,250</u>	2/15/2042	3.50%
Total	<u>\$291,069</u>		

Note 3. Owners' Assessments

Monthly assessments to owners were \$225 for the year ending October 31, 2013. Approximately 35% 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 2013/2014 approved budget reflects an increase in monthly assessments to \$260.

Note 4. Roof Assessments

The homeowners were responsible for roof replacement costs. During 2012/2013, sixty three owners had their roofs replaced privately, fourteen owners had contracts in place, and the remaining forty six were assessed a special roof replacement assessment, totaling \$305,965, for contracts entered into by the Association. The project will be completed in early 2014.

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.

The Association has recently conducted, but not yet approved, 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 auditor's report.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2013

Note 6. Federal and State Corporate Income Taxes

The Association has filed its income tax returns for the year ended October 31, 2013 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 combined federal and state rate of 34.63% on its nonexempt function income, which includes interest income and revenue from nonmembers. The Association incurred a combined income tax expense of \$434 for the year ended October 31, 2013.

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

Note 7. 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, 2013, 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, 2013.

Tax years that remain subject to examination by taxing authorities are years 2009/2010 and forward for the United States of America, and year 2008/2009 and forward for the State of Colorado.

Note 8. 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 9. Evaluation of Subsequent Events

Subsequent events have been evaluated through March 26, 2014, which is the date the financial statements were available to be issued.

See independent auditor's report.