

**Hillcrest at Homestead
Homeowners Association**
Financial Statements
And Supplementary Information
For the Year Ended October 31, 2014

With Independent Auditor's Report

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Hillcrest at Homestead Homeowners Association

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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

I have audited the accompanying financial statements of Hillcrest at Homestead Homeowners Association, which comprise the balance sheet as of October 31, 2014, 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

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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2014, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Supplementary Information on Future Major Repairs and Replacements on pages ten and eleven be presented to supplement the basic financial statements. Such 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge we obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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

May 13, 2015

Hillcrest at Homestead Homeowners Association
Balance Sheet
October 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,425,550	\$ 196,449	\$ 1,621,999
Held-to-Maturity Investments		326,576	326,576
Accrued Interest Receivable		878	878
Assessments Receivable	4,180		4,180
Prepaid Expenses	5,823		5,823
Furniture, Net of Accumulated Depreciation of \$7,795	<u>2,126</u>		<u>2,126</u>
Total Assets	<u><u>\$ 1,437,679</u></u>	<u><u>\$ 523,903</u></u>	<u><u>\$ 1,961,582</u></u>
LIABILITIES AND FUND BALANCE			
Accounts Payable - Trade	\$ 10,923	\$ -	\$ 10,923
Assessments Received in Advance	9,789		9,789
Deferred Insurance Claims Proceeds	<u>1,368,666</u>		<u>1,368,666</u>
Total Liabilities	<u>1,389,378</u>	<u>-</u>	<u>1,389,378</u>
Fund Balance	<u>48,301</u>	<u>523,903</u>	<u>572,204</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,437,679</u></u>	<u><u>\$ 523,903</u></u>	<u><u>\$ 1,961,582</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, 2014

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 225,630	\$ 158,130	\$ 383,760
Interest		6,798	6,798
Other	1,138		1,138
Total Revenues	<u>226,768</u>	<u>164,928</u>	<u>391,696</u>
EXPENSES			
Grounds Maintenance	57,850		57,850
Insurance	53,424		53,424
Utilities	23,529		23,529
Trash Removal	16,308		16,308
Management Fee	15,600		15,600
Swimming Pool	14,274		14,274
Snow Removal	10,356		10,356
Professional Fees	7,449		7,449
Administrative	6,534		6,534
Roofs	3,500		3,500
Depreciation	1,417		1,417
Bad Debt Expense	447		447
Major Repairs and Replacements Expenses:			
Fences		138,220	138,220
Streets		12,460	12,460
Reserve Study		2,618	2,618
Realized Loss/Purchased Interest on Investments		5,770	5,770
Total Expenses	<u>210,688</u>	<u>159,068</u>	<u>369,756</u>
Excess of Revenues Over Expenses	16,080	5,860	21,940
Fund Balance, November 1, 2013	<u>32,221</u>	<u>518,043</u>	<u>550,264</u>
Fund Balance, October 31, 2014	<u><u>\$ 48,301</u></u>	<u><u>\$ 523,903</u></u>	<u><u>\$ 572,204</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, 2014

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 16,080	\$ 5,860	\$ 21,940
Adjustments to reconcile excess of revenues over expenses to net cash provided (used) by operating activities:			
Depreciation	1,417		1,417
Bad Debt Expense	447		447
Realized Loss on Investments		5,770	5,770
(Increase) decrease in assets:			
Accrued Interest Receivable		(531)	(531)
Assessments Receivable	44,241		44,241
Prepaid Expenses	743		743
Increase (decrease) in liabilities:			
Accounts Payable	6,859		6,859
Roof Project Payable	(179,625)		(179,625)
Assessments Received in Advance	185		185
Income Taxes Payable	(434)		(434)
Deferred Insurance Claims Proceeds	1,368,666		1,368,666
Net Cash Provided by Operating Activities	<u>1,258,579</u>	<u>11,099</u>	<u>1,269,678</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Purchase of Held-to-Maturity Investments		(41,277)	(41,277)
Net Cash Used by Investing Activities	<u>-</u>	<u>(41,277)</u>	<u>(41,277)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,258,579	(30,178)	1,228,401
Cash and Cash Equivalents, November 1, 2013	166,971	226,627	393,598
Cash and Cash Equivalents, October 31, 2014	<u>\$ 1,425,550</u>	<u>\$ 196,449</u>	<u>\$ 1,621,999</u>
Supplemental Information			
Interest Paid	\$ -	\$ -	\$ -
Income Taxes Paid	<u>\$ 434</u>	<u>\$ -</u>	<u>\$ 434</u>

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

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2014

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, 2014

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.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2014

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	\$268,222	6/10/2015 to 2/16//2022	0.40% to 4.15%
FHLMC/FNMA/GNMA	<u>58,354</u>	10/16/2042 to 11/25/2044	3.00%
Total	<u>\$326,576</u>		

Note 3. Owners' Assessments

Monthly assessments to owners were \$260 for the year ending October 31, 2014. Approximately 41% 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.

Note 4. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate investment accounts and are not available for expenditures for normal operations.

A reserve study was prepared in 2014 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. Economic factors used included an average inflation rate of 3.0% and a current average interest rate of 0.25%. The table included in the unaudited Supplementary Information about Future Major Repairs and Replacements is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures and investment income 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 all future needs for major repairs and replacement. If additional funds are needed, the Association has the right, to increase regular assessments or delay major repairs and replacements until funds are available.

Note 5. Federal and State Corporate Income Taxes

The Association has filed its income tax returns for the year ended October 31, 2014 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.

Hillcrest at Homestead Homeowners Association
Notes to Financial Statements
October 31, 2014

Note 5. Federal and State Corporate Income Taxes - continued

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 no income tax expense for the year ended October 31, 2014.

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

Tax years that remain subject to examination by taxing authorities are years 2010/2011 and forward for the United States of America, and years 2009/2010 and forward for the State of Colorado.

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.

As of October 31, 2014, 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, 2014.

Note 7. Hail Damage

The Association received \$1,368,665.91 of insurance claims in October 2014 for hail damage repairs. The repairs will be made in 2014/2015.

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 May 13, 2015, 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, 2014**

The Association had a reserve study prepared in 2014 to estimate the remaining useful lives and the replacement costs of the components of common property. An inflation rate of 3.0% was used in computing estimated future replacement cost. Interest was estimated at 1.0% 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.

<u>Asset</u>	<u>Useful Life</u>	<u>Remaining Life</u>	<u>Replacement Year</u>	<u>Asset Cost</u>	<u>Future Cost</u>
Asphalt:					
Mill and Overlay	15	11	2024	\$210,000	\$290,689
Seal Coat and Crackfill	5	2	2015	30,800	32,676
Concrete Walkways:					
Replace Damaged Sections	7	3	2016	4,000	4,371
Replace Damaged Sections	6	3	2016	8,424	9,205
Concrete Pool Deck - Replace	18	7	2020	41,600	51,163
Community Signs	15	10	2023	7,500	10,079
Street Signs	15	10	2023	5,000	6,720
Retaining Walls:					
Replace Damaged Sections	8	9	2022	4,320	5,637
Replace Timber Walls	25	10	2023	11,550	15,522
Fencing:					
Replace Metal Fencing	40	10	2023	12,440	16,718
Replace Wood Fencing	20	0	2013	334,926	334,926
Cluster Box Units - Replace	40	40	2053	11,700	38,166
Landscaping and Irrigation	6	1	2014	10,000	10,300
Wood Siding and Trim					
Paint - Phase I	6	3	2016	72,230	78,928
Paint - Phase II	6	4	2017	72,230	81,296
Paint - Phase III	6	5	2018	72,230	83,735
Asphalt Shingles:					
Replace - Buildings Ph 1	30	15	2028	188,000	292,898
Replace - Buildings Ph 2	30	16	2029	188,000	301,685
Replace - Buildings Ph 3	30	17	2030	188,000	310,735
Replace - Buildings Ph 4	30	18	2031	188,000	320,057
Replace - Pool House	30	28	2041	2,500	5,720
Restrooms - Remodel	20	11	2024	14,000	19,379

See independent auditor's report.

**Hillcrest at Homestead Homeowners Association
Supplementary Information on Future
Major Repairs and Replacements (Unaudited)
October 31, 2014**

<u>Asset</u>	<u>Useful Life</u>	<u>Remaining Life</u>	<u>Replacement Year</u>	<u>Asset Cost</u>	<u>Future Cost</u>
Swimming Pool:					
Replace Coping Stones	35	6	2019	6,000	7,164
Replace Pool Cover	10	9	2022	3,000	3,914
Resurface	10	4	2017	17,500	19,696
Pool Furniture - Replace	10	11	2024	8,000	11,074
Boilers - Replace	25	5	2018	3,500	4,057
Pool and Spa Filters - Replace	10	3	2016	4,000	4,371
Pool and Spa Pumps - Replace	8	4	2017	1,000	1,126
Hot water Storage Heater - Replace	12	4	2017	<u>1,000</u>	<u>1,126</u>
				<u>\$1,721,451</u>	<u>\$2,373,133</u>

See independent auditor's report.