

***MESA HOMEOWNERS
ASSOCIATION***

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013 and 2012

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DECEMBER 31, 2013 and 2012

L.R. COMPTON II, LLC
CERTIFIED PUBLIC ACCOUNTANTS
3595 SOUTH TELLER STREET, SUITE 402
LAKEWOOD, COLORADO 80235

MESA HOMEOWNERS ASSOCIATION

DECEMBER 31, 2013 and 2012

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L.R. COMPTON II, LLC

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Mesa Homeowners Association
Aurora, Colorado

We have audited the accompanying financial statements of Mesa Homeowners Association, which comprise the balance sheet as of December 31, 2013 and 2012, and the related statements of revenue, expenditures and changes in fund balance and cash flows for the years 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 audits. We conducted our audits 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 Mesa Homeowners Association as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the Replacement Study 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.

Lakewood, Colorado
April 30, 2014



**MESA HOMEOWNERS
ASSOCIATION
BALANCE SHEETS**

	DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash	\$ 108,725	\$ 64,687	\$ 173,412	\$ 125,735
Certificates of Deposit	-	20,525	20,525	40,525
Assessments Receivable, Net	13,617	-	13,617	28,463
Prepaid Items	2,150	-	2,150	2,000
Interfund Balances	-	-	-	-
TOTAL ASSETS	<u>\$ 124,492</u>	<u>\$ 85,212</u>	<u>\$ 209,704</u>	<u>\$ 196,723</u>
 LIABILITIES and FUND BALANCES				
LIABILITIES				
Accounts Payable and Accrued Liabilities	\$ 5,506	\$ -	\$ 5,506	\$ 6,051
Deferred Assessments	<u>23,710</u>	<u>-</u>	<u>23,710</u>	<u>17,849</u>
<i>Total Liabilities</i>	29,216	-	29,216	23,900
 FUND BALANCES				
Working Capital Fund	24,180	-	24,180	24,180
Operating Fund	71,096	-	71,096	66,972
Replacement Fund	<u>-</u>	<u>85,212</u>	<u>85,212</u>	<u>81,671</u>
<i>Total Fund Balances</i>	<u>95,276</u>	<u>85,212</u>	<u>180,488</u>	<u>172,823</u>
 TOTAL LIABILITIES and FUND BALANCES	<u>\$ 124,492</u>	<u>\$ 85,212</u>	<u>\$ 209,704</u>	<u>\$ 196,723</u>

See Notes to Financial Statements

MESA HOMEOWNERS ASSOCIATION

STATEMENTS of REVENUE, EXPENDITURES and CHANGES in the FUND BALANCES

	YEARS ENDED DECEMBER 31,			
	2013			2012
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Assessments	\$ 136,920	\$ 3,324	\$ 140,244	\$ 140,244
Other Member Income	8,901	-	8,901	11,276
Interest	<u>49</u>	<u>357</u>	<u>406</u>	<u>436</u>
Total Revenue	<u>145,870</u>	<u>3,681</u>	<u>149,551</u>	<u>151,956</u>
EXPENDITURES				
Maintenance				
Landscaping	19,749	-	19,749	18,749
Grounds	6,017	-	6,017	4,633
Snow Removal	<u>1,469</u>	<u>-</u>	<u>1,469</u>	<u>2,000</u>
<i>Total Maintenance</i>	<u>27,235</u>	<u>-</u>	<u>27,235</u>	<u>25,382</u>
Operating				
Utilities	<u>80,985</u>	<u>-</u>	<u>-</u>	<u>79,990</u>
<i>Total Operating</i>	<u>80,985</u>	<u>-</u>	<u>80,985</u>	<u>79,990</u>
Replacement Projects	-	-	-	-
Administrative				
Bad Debts	6,456	-	6,456	(6,712)
Income Taxes	-	-	-	-
Insurance	3,454	-	3,454	4,152
Management Fees	18,420	-	18,420	18,120
Office and Communications	3,607	140	3,747	3,911
Professional Fees	<u>1,589</u>	<u>-</u>	<u>1,589</u>	<u>4,314</u>
<i>Total Administrative</i>	<u>33,526</u>	<u>140</u>	<u>33,666</u>	<u>23,785</u>
Total Expenditures	<u>141,746</u>	<u>140</u>	<u>141,886</u>	<u>129,157</u>
EXCESS of REVENUE OVER EXPENDITURES	4,124	3,541	7,665	22,799
Fund Balances, Beginning of Year	<u>66,972</u>	<u>81,671</u>	<u>148,643</u>	<u>125,844</u>
FUND BALANCES, End of Year	\$ <u>71,096</u>	\$ <u>85,212</u>	\$ <u>156,308</u>	\$ <u>148,643</u>

See Notes to Financial Statements

MESA HOMEOWNERS ASSOCIATION

STATEMENTS of CASH FLOWS

	YEARS ENDED DECEMBER 31,			
	2013			2012
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
<i>CASH PROVIDED (USED) by OPERATING ACTIVITIES:</i>				
Excess (Deficit) of Revenue Over Expenditures	\$ 4,124	\$ 3,541	\$ 7,665	\$ 22,799
<i>Adjustments to Reconcile Excess (Deficit) of Revenue over Expenditures to Net Cash Provided (Used) by Operating Activities</i>				
Assessments Receivable, Net	14,846	-	14,846	(11,489)
Prepaid Items	(150)	-	(150)	1,297
Accounts Payable and Accrued Liabilities	(545)	-	(545)	1,229
Deferred Assessments	<u>5,861</u>	<u>-</u>	<u>5,861</u>	<u>(1,267)</u>
<i>Total Cash Provided (Used) by Operating Activities</i>	24,136	3,541	27,677	12,569
<i>CASH PROVIDED (USED) by INVESTING ACTIVITIES:</i>				
Certificates of Deposit	-	20,000	20,000	(40,525)
Interfund Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total Cash Provided (Used) by Investing Activities</i>	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>(40,525)</u>
<i>NET INCREASE (DECREASE) in CASH</i>	24,136	23,541	47,677	(27,956)
Cash, Beginning of Year	<u>84,589</u>	<u>41,146</u>	<u>125,735</u>	<u>153,691</u>
<i>CASH, End of Year</i>	<u>\$ 108,725</u>	<u>\$ 64,687</u>	<u>\$ 173,412</u>	<u>\$ 125,735</u>
Supplemental Disclosures				
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See Notes to Financial Statements

MESA HOMEOWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012

HISTORY and SIGNIFICANT ACCOUNTING POLICIES

History

Mesa Homeowners Association was organized and incorporated under the provisions of the Colorado Nonprofit Corporation Act on March 9, 1998. The Association is a membership corporation without certificates or shares of stock, and consists of 403 lots with residences, the owners of which are the members of Mesa Homeowners Association. Although more than one person or entity may own a lot, only one vote per lot maybe exercised at all meetings.

The Association is charged with the responsibility for the care, maintenance, preservation and architectural control of the common areas and to promote the health, safety and welfare of the residents within the jurisdiction of the Association.

The powers and privileges of the Association are enumerated in its By-Laws and the Declaration of Covenants, Conditions and Restrictions which provide for an elected Board of Directors to administer the responsibilities above as well as perform the fiscal duties required by a membership corporation. The Board has adopted a set of rules and regulations to assist in the operation of the project. It may further hire and delegate day-to-day responsibility for the operations to a professional management company.

Significant Accounting Policies

Method of Accounting

Mesa Homeowners Association's financial statements are prepared on the accrual basis of accounting utilizing fund accounting to report on its activities as prescribed in its governing documents.

Accounts Receivable, Net

The accounts receivable arise from quarterly assessments, late charges and legal fees incurred in the collection of overdue accounts from homeowners. These balances from ordinary business activities are second in seniority only to any first mortgage on the property and are, in management's opinion, collectible in full. Even though receivables are considered collectible in the long run, the Board has established a reserve for uncollectable accounts of \$18,500 and \$17,000 at December 31, 2013 and 2012 based on the time and effort involved in attempting collection, and the court decisions relegating Associations to a limited amount in bankruptcy. This allowance has been subtracted from the gross homeowner receivables.

MESA HOMEOWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012 (Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Certificate of Deposit

At December 31, 2013 and 2012, the portfolio of the replacement fund held one \$20,000 certificate of deposit (purchased at a \$525 premium) with a maturity of May 28, 2014 and an interest rate of 1.236%. At December 31, 2012, the fund held an additional \$20,000 certificate with an interest rate of 0.400% and a maturity of April 18, 2013.

Prepaid Items

Mesa Homeowners Association may pay certain expenses such as insurance, income taxes, etc. on an annual or estimated basis. Those portions to be expensed in a future accounting period are recorded as prepaid items.

Deferred Assessments

When members pay their assessments in advance of the period for which they are billed, the Association records it as a liability and recognizes the income in the appropriate accounting period.

Interfund Balances

At various times, the Operating Fund and the Replacement Fund may not have completed cash transfers between funds. Cash held for transfer from one fund to the other, if any, is shown as interfund balances due from one fund to the other.

Fair Value of Financial Instruments

The carrying value of cash, short-term receivables, short-term payables and long-term debt approximate their fair value at December 31, 2013 and 2012. The fair value of debt is estimated based upon current interest rates for obligations with similar terms and maturities.

Concentration of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash balances. Mesa Homeowners Association maintains its cash balances in both national banks and with investment firms. The Federal Deposit Insurance Corporation provides up to \$250,000 of insurance at December 31, 2013 and 2012 for interest earning balances in national banks, and unlimited insurance on demand deposits. Investment firms provide insurance for the balances in their accounts. Based on the FDIC limits at year-end December 31, 2013 and 2012, the Association has \$-0- in uninsured deposits.

MESA HOMEOWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012
(Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Fund Balances

Mesa Homeowners Association records its fiscal activities in three funds, defined as:

Working Capital

The initial purchaser of a lot in the project paid the Association an amount equivalent to three month's assessment, termed working capital, to assist the Association operate in a fiscally responsible manner. This amount is not refundable to those who paid it in, but the Association will provide documentation to a selling member to allow for recovery from a purchaser of the property. The Declaration provides the Board with the ability, in the future, to refund the entire working capital, pro-rata, to its members or to add it to the replacement fund. Such an event can only occur if the Association builds the financial strength that, in the opinion of the Board, warrants such an action.

Operating

Normal and usual operating income and expenses, as directed by the Board and set by the annual budget are recorded in this Fund.

Replacement Fund

An adequate reserve shall be accumulated from the annual assessments to provide for the major maintenance and replacement of common areas of the Association.

Revenue

Assessments from homeowners, as set by the annual budget, represent the major source of revenue for the Association. Additionally, assessments paid in arrears incur a late charge, and should legal steps become necessary in the collection process, such fees are recorded with the late charges as other income. Any cash not required immediately, is invested in interest bearing accounts with financial institutions. Other income may arise from legal fees, late fees, covenant violations or Super Lien payments.

Income Taxes

Even though Mesa Homeowners Association is incorporated as a Colorado nonprofit entity and may be considered tax exempt under Section 528 of the Internal Revenue Code, this exemption applies only to revenue collected from members based on their membership in the Association. Earnings from invested funds, such as interest and dividends, etc., or from non-member activities is subject to either Internal Revenue Service Code Section 528 Homeowner Tax or standard Corporate Income Tax for State and Federal filing purposes.

MESA HOMEOWNERS ASSOCIATION

NOTES to FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012 (Continued)

HISTORY and SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: Replacement Fund

At December 31, 2013 and 2012, a total of \$85,212 and \$81,671 respectively have been allocated to the Replacement Fund of the Association. These monies are being held in restricted, interest bearing accounts. The general restriction on these funds is their use for major maintenance and/or replacement of the Association's common areas.

The Board is charged with the responsibility of developing a long-term cash needs plan for the anticipated costs of major maintenance necessary due to usage, as well as the replacement needs due to wear or obsolescence.

NOTE 3: Replacement Projects

The Board of the Association plans the Replacement Fund expenditures each year depending on the "Reserve Study", and on owners' reports of physical conditions. During the years covered herein, the following projects were undertaken and completed by the Replacement Fund:

<u>Project Description</u>	<u>Years Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
None Planned	\$ <u>-</u>	\$ <u>-</u>

NOTE 4: Restatements

Certain accounts from the December 31, 2012 financial statements have been reclassified to conform to the presentation at December 31, 2013.

NOTE 5: Contingencies

The Association is a party to various legal actions normally associated with homeowner's associations, such as the collection of delinquent accounts and owner compliance with the covenants, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 6: Subsequent Events

In preparing these financial statements, the Mesa Homeowners Association's Board has evaluated events and transactions for potential recognition or disclosure through April 30, 2014, the date the financial statements were issued.

***MESA HOMEOWNERS
ASSOCIATION***

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2013

L.R. COMPTON II, LLC
Certified Public Accountants

***Independent Auditor's Report on
Supplementary Information***

To the Board of Directors
Mesa Homeowners Association
Aurora, Colorado

We have audited the financial statements of Mesa Homeowners Association as of and for the years ended December 31, 2013 and 2012, and our report thereon dated April 30, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The *Schedule of Actual Revenue and Expenditures Versus Budget, Operating Fund* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the column marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

April 30, 2014



MESA HOMEOWNERS ASSOCIATION

SCHEDULE of ACTUAL REVENUE and EXPENDITURES VERSUS BUDGET, OPERATING FUND YEAR ENDED DECEMBER 31, 2013

	<u>Actual</u>	<u>Budget</u> (unaudited)	Variance Favorable/ (Unfavorable)
REVENUE			
Assessments	\$ 140,244	\$ 140,244	\$ -
Interest	49	-	49
Other Income	<u>8,901</u>	<u>8,500</u>	<u>401</u>
<i>Total Revenue</i>	149,194	148,744	450
EXPENDITURES			
Maintenance and Supplies			
Landscaping	19,749	19,100	(649)
Grounds	6,017	3,000	(3,017)
Snow Removal	1,469	1,500	31
Unexpected Expense	-	100	100
Operating Expenses			
Transfer to Replacement			
Fund	3,324	3,324	-
Utilities	80,985	83,000	2,015
Administrative Expenses			
Bad Debts	6,456	3,500	(2,956)
Income Taxes	-	100	100
Insurance	3,454	4,600	1,146
Management Fees	18,420	18,420	-
Office and Communications	3,607	3,100	(507)
Professional Fees	<u>1,589</u>	<u>9,000</u>	<u>7,411</u>
<i>Total Expenditures</i>	<u>145,070</u>	<u>148,744</u>	<u>3,674</u>
EXCESS (DEFICIT) of REVENUE OVER EXPENDITURES	\$ <u>4,124</u>	\$ <u>-</u>	\$ <u>4,124</u>

NOTE: Unfavorable Revenue: () equals less revenue than budgeted.
Unfavorable Expenditures: () equals more expended than budgeted.