
First Eagles Point
Homeowners Association
Financial Statements and Report of
Independent Certified Public Accountants
March 31, 2018

First Eagles Point Homeowners Association

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
First Eagles Point Homeowners Association
Battlement Mesa, Colorado

We have audited the accompanying financial statements of First Eagles Point Homeowners Association, which comprise the balance sheet as of March 31, 2018, 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 First Eagles Point Homeowners Association as of March 31, 2018 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 Supplemental Information on Future Major Repairs and Replacements on page 10 through 13 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blair and Associates, P.C.

Cedaredge, Colorado

August 20, 2018

First Eagles Point Homeowners Association
Balance Sheet
March 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 28,327	\$ 156,121	\$ 184,448
Accounts receivable	14,210	-	14,210
Interfund receivable (payable)	7,225	(7,225)	-
Total assets	<u>\$ 49,762</u>	<u>\$ 148,896</u>	<u>\$ 198,658</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 1,436	\$ -	\$ 1,436
Taxes payable	14	-	14
Prepaid assessments	17,584	-	17,584
Total liabilities	<u>19,034</u>	<u>-</u>	<u>19,034</u>
Fund balance	<u>30,728</u>	<u>148,896</u>	<u>179,624</u>
Total liabilities and fund balance	<u>\$ 49,762</u>	<u>\$ 148,896</u>	<u>\$ 198,658</u>

See accompanying notes.

First Eagles Point Homeowners Association
Statement of Revenue, Expenses and Changes in Fund Balance
For the Year Ended March 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenue			
Regular assessment	\$ 27,740	\$ 16,500	\$ 44,240
Other income	8,547	156	8,703
Total revenue	<u>36,287</u>	<u>16,656</u>	<u>52,943</u>
Expenses			
Legal and accounting	4,482	-	4,482
Management fees	12,432	-	12,432
Insurance	1,748	-	1,748
Landscaping maintenance	4,080	-	4,080
Sprinkler system	70	-	70
Irrigation water	1,702	-	1,702
Repairs and maintenance	1,235	-	1,235
Office expense	650	-	650
Utilities	153	-	153
Sign maintenance	281	-	281
Trash removal	4,795	-	4,795
Asphalt replacement	-	15,475	15,475
Taxes	14	-	14
Total expenses	<u>31,642</u>	<u>15,475</u>	<u>47,117</u>
Excess revenue over expenses	4,645	1,181	5,826
Fund balance - beginning of year	26,083	147,715	173,798
Fund balance (deficit) - end of year	<u>\$ 30,728</u>	<u>\$ 148,896</u>	<u>\$ 179,624</u>

See accompanying notes.

First Eagles Point Homeowners Association
Statement of Cash Flows
For the Year Ended March 31, 2018

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities	\$ 4,645	\$ 1,181	\$ 5,826
Excess revenue over expenses			
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities			
(Increase) decrease in accounts receivable	(4,393)	-	(4,393)
Increase (decrease) in accounts payable	(2,536)	-	(2,536)
Increase (decrease) in taxes payable	-	-	-
Increase (decrease) in prepaid assessments	7,305	-	7,305
Increase (decrease) in Interfund receivables (payables)	(7,225)	7,225	-
Net cash provided by operating activities	<u>(2,204)</u>	<u>8,406</u>	<u>376</u>
Net increase in cash and cash equivalents	(2,204)	8,406	6,202
Cash and cash equivalents - beginning of year	<u>30,531</u>	<u>147,715</u>	<u>178,246</u>
Cash and cash equivalents - end of year	<u><u>\$ 28,327</u></u>	<u><u>\$ 156,121</u></u>	<u><u>\$ 184,448</u></u>

See accompanying notes.

First Eagles Point Homeowners Association
Notes to the Financial Statements
March 31, 2018

Note 1 - Summary of Significant Accounting Policies

First Eagles Point Homeowners Association (the Association), a Colorado nonprofit corporation, is a homeowners' association located in Battlement Mesa, Colorado. The Association was incorporated on September 22, 2004, to provide for the community, civic and social welfare of the homeowners in the common interest realty association. The Association began maintaining the streets, landscaped common areas and street lighting, on April 1, 2005. The Association has no employees. The Association contracts with a management agency for all services (see Note 4).

Basis of Presentation

Association's financial statements are presented in accordance with the Audit and Accounting Guide for Common Interest Realty Associations published by the American Institute of Certified Public Accountants. Association follows the accrual method of accounting whereby assessments and revenues are recorded when due and expenses are recorded when incurred.

Fund Accounting

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:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs, replacements and acquisitions.

Cash and Cash Equivalents

Cash and cash equivalents for the statement of cash flows consist of cash in bank, cash on hand and securities with maturities of three months or less. All such balances are covered under the Federal Deposit Insurance Corporation insurance limits.

Income Taxes

Homeowner associations may elect to be taxed as regular corporations or as homeowners' associations. The association has elected to be taxed as a homeowner association. Under that election, the Association is generally taxed only on non-function income, such as interest earnings, at a flat rate of thirty percent. The appropriated IRS elections have been made to exclude function income from taxation. The Association paid \$18 income taxes for the year ending March 31, 2018. The Association is no longer subject to U.S. Federal or State examinations by tax authorities for the years before 2013.

First Eagles Point Homeowners Association
Notes to the Financial Statements
March 31, 2018

Note 1 - Summary of Significant Accounting Policies – (continued)

Accounts Receivable

Accounts receivable at the balance sheet date represent assessment fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 180 days or more delinquent. The Association considers all accounts receivable at March 31, 2018 to be fully collectible.

Use of 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 - Homeowners Fees and Economic Dependence

As of March 31, 2018, all of the 54 lots which can be annexed into the development had been transferred to owners other than the Declarant or builder. All annexed lots pay the full assessment of \$ 197.50 per lot per quarter.

Note 3 - Future Major Repairs and Replacements

The Association's governing documents allow funds to be accumulated for future major repairs and replacements including additions, alterations or improvements. Association has conducted a reserve fund analysis study to estimate the remaining useful lives and the replacement costs of the common property components.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement cost, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, 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 future needs.

If additional funds are needed, however, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

First Eagles Point Homeowners Association
Notes to the Financial Statements
March 31, 2018

Note 4 - Related Party Transactions

The Association has entered into a management agreement with the Elk Peaks Consulting Group, Ltd to manage the day-to-day operations of the Association under the direction of the Association's Board of Directors. For the year ended March 31, 2018, management and accounting fees paid to the management company were \$ 12,432 for general management of the entire Association.

Note 5 - Fair Values of Financial Instruments

In accordance with the Fair Value Measurements of FASB Accounting Standards Codification (ASC) 820-10, assets and liabilities are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobserved assumptions reflect Association's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In accordance with the Fair Value Measurements and Disclosures topic of the ASC, Association bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon Association's estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

First Eagles Point Homeowners Association
Notes to the Financial Statements
March 31, 2018

Note 5 - Fair Values of Financial Instruments – (continued)

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value:

Cash and cash equivalents, accounts receivable, accounts payable. The carrying amount approximates fair value due to the short maturity of these instruments.

Note 6 - Subsequent Events

The Association has evaluated subsequent events through August 20, 2018, the date at which the financial statements were available to be issued. No subsequent events were noted.

Supplemental Information

First Eagles Point Homeowners Association
Supplemental Information on Future Major
Repairs and Replacements (Unaudited)
March 31, 2018
See Accountants Review Report

As required by Colorado House Bill 09-1359, the Association has adopted a Reserve Study Policy. In accordance with this Reserve Study Policy, it is the Association's intent to conduct a reserve study at such times as in its sole discretion it determines is necessary, but at least every five (5) years, to determine the necessity and amount of reserves required to maintain, repair, replace and restore the Association's common elements. The Reserve Study is based on a physical analysis and a financial analysis.

A reserve study was completed on January 15, 2018 which projected fund revenues and expenses out to 2046.

The Association's common elements consist of the improved landscape common areas, the streets, including Eagle Ridge Drive, Eagle Court, Raptor Court and Talon Trail, the fence along Spencer Parkway, improvements at the central mailboxes and the Village entrance sign.

For reserve evaluation purposes, it is assumed that all of the maintenance and replacement costs associated with the improved landscaped areas, including trees, shrubs, landscape rock, and the sprinkler system is currently and will continue to be funded annually from the operating fund. The future maintenance and / or replacement costs of the remaining common elements including the streets, the fencing, improvements at the central mailboxes and the Village entrance sign need to be funded by the monies set aside in the Association's reserve fund.

The Association's reserve fund is a separate bank account apart from the Association's operating fund bank account. During the fiscal year ended on March 31, 2018, the Association contributed \$16,500 to the reserve fund and spent \$15,475 for asphalt maintenance.

Reserve Fund Balance April 1, 2017	\$147,715
Expenditures FYE March 31, 2018	(\$15,475)
Interest on deposits	156
Deposits to Reserve Fund FYR March 31, 2018	<u>\$ 16,500</u>
Reserve Fund Balance March 31, 2018	<u>\$148,896</u>

Although the amount which needs to be contributed to the reserve fund is determined by the individual reserve fund common elements, specifically the streets, the fencing and the Village sign, the reserve fund is consider to be a general reserve in an amount that will meet the needs of all of the individual reserve fund common elements rather than each element being allocated an individual amount.

Assumptions

Interest Earned Rate	0.40%	Cost Increase Rate	2.0%
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Village Streets		
Placed in Service	2006	
Useful Life	30 Years	
Replacement Year	2036	
Remaining Useful Life	18 Years	
% Replacement	100%	
Units	9523 Sq Yds	84,642 Sq Ft
Fencing; Spencer Parkway and So. of Entrance		
Placed in Service	2006	
Useful Life	30 Years	
Replacement Year	2036	
Remaining Useful Life	18 years	
% Replacement	100%	
Units	664 Lin Ft	
Central Mail Boxes Improvements		
Placed in Service	2006	
Useful Life	40 Years	
Replacement Year	2046	
Remaining Useful Life	28 Years	
% Replacement	100 %	
Units	490 Sq Ft	
Village Sign at Entrance		
Placed in Service	2006	
Useful Life	50 Years	
Replacement Year	2056	
Remaining Useful Life	38 Years	
Units	1 Sign	

**First Eagles Point Homeowners Association
Reserve Fund Balance Analysis by Year**

Beg. Fund Balance		Deposits	Expenses	Ending Fund Balance			Expense Type
Beginning Fund Balance	Year Ended March 31st	Annual Reserve Fund Deposits	Required and Planned Expenses	Ending Fund Balance, Before Interest	Annual Interest on Fund Balance	Total Reserve Fund Balance by Year	
\$0	2006	\$0	\$0	\$0			
\$2,868	2007	\$0	\$0	\$2,868	\$0	\$2,868	
\$2,868	2008	\$5,745	\$0	\$8,613	\$0	\$8,613	
\$8,613	2009	\$16,464	\$0	\$25,077	\$0	\$25,077	
\$25,077	2010	\$16,464	\$3,500	\$38,041	\$8	\$38,049	Street Crack Seal
\$38,049	2011	\$16,464	\$0	\$54,513	\$35	\$54,548	
\$54,548	2012	\$16,464	\$3,000	\$68,012	\$141	\$68,153	Street Crack Seal
\$68,153	2013	\$16,500	\$0	\$84,653	\$117	\$84,770	
\$84,770	2014	\$16,500	\$0	\$101,270	\$88	\$101,358	
\$101,358	2015	\$16,500	\$3,500	\$114,358	\$101	\$114,459	Street Crack Seal
\$114,459	2016	\$16,500	\$0	\$130,959	\$112	\$131,071	
\$131,071	2017	\$16,500	\$0	\$147,571	\$145	\$147,716	
\$147,716	2018	\$16,500	\$15,475	\$148,741	\$156	\$148,897	Street Crack Seal & Seal Coat
\$148,897	2019	\$16,500	\$0	\$165,397	\$662	\$166,059	
\$166,059	2020	\$16,500	\$0	\$182,559	\$730	\$183,289	
\$183,289	2021	\$16,500	\$3,247	\$196,542	\$786	\$197,328	Street Crack Seal
\$197,328	2022	\$16,500	\$0	\$213,828	\$855	\$214,683	
\$214,683	2023	\$16,500	\$0	\$231,183	\$925	\$232,108	
\$232,108	2024	\$16,500	\$17,776	\$230,832	\$923	\$231,755	Street Crack Seal & Seal Coat
\$231,755	2025	\$16,500	\$0	\$248,255	\$993	\$249,248	
\$249,248	2026	\$16,500	\$0	\$265,748	\$1,063	\$266,811	
\$266,811	2027	\$16,500	\$3,657	\$279,654	\$1,119	\$280,773	Street Crack Seal
\$280,773	2028	\$16,500	\$0	\$297,273	\$1,189	\$298,462	
\$298,462	2029	\$16,500	\$0	\$314,962	\$1,260	\$316,222	
\$316,222	2030	\$16,500	\$20,019	\$312,703	\$1,251	\$313,954	Street Crack Seal & Seal Coat
\$313,954	2031	\$16,500	\$0	\$330,454	\$1,322	\$331,776	
\$331,776	2032	\$16,500	\$0	\$348,276	\$1,393	\$349,669	
\$349,669	2033	\$16,500	\$4,118	\$362,051	\$1,448	\$363,499	Street Crack Seal
\$363,499	2034	\$16,500	\$0	\$379,999	\$1,520	\$381,519	
\$381,519	2035	\$16,500	\$0	\$398,019	\$1,592	\$399,611	Street 2" Overlay & Fence Repmt
\$399,611	2036	\$16,500	\$293,295	\$122,816	\$491	\$123,307	
\$123,307	2037	\$16,500	\$0	\$139,807	\$559	\$140,366	

\$140,366	2038	\$16,500	\$0	\$156,866	\$627	\$157,494	
\$157,494	2039	\$16,500	\$4,638	\$169,356	\$677	\$170,033	Street Crack Seal
\$170,033	2040	\$16,500	\$0	\$186,533	\$746	\$187,279	
\$187,279	2041	\$16,500	\$0	\$203,779	\$815	\$204,595	
\$204,595	2042	\$16,500	\$25,388	\$195,706	\$783	\$196,489	Street Crack Seal & Seal Coat
\$196,489	2043	\$16,500	\$0	\$212,989	\$852	\$213,841	
\$213,841	2044	\$16,500	\$0	\$230,341	\$921	\$231,262	
\$231,262	2045	\$16,500	\$5,223	\$242,539	\$970	\$243,509	Street Crack Seal
\$243,509	2046	\$16,500	\$15,336	\$244,674	\$1,040	\$245,714	Central Mailboxes, Village Sign

The table above shows the projected costs and revenues by year through 2046. The three key assumptions are that a) the annual contribution to the reserve fund will remain constant at \$16,500 per year, b) that inflationary cost increases will average 2.0% per year and 3) that the interest earned rate will average 0.40% per year.

In the event that inflationary cost raises faster than the projected 2% the Association will need and is prepared to increase the annual reserve fund contribution accordingly in order to assure that the Association will always have sufficient funds in order to meet planned reserve fund expenses as they come due without a special assessment.

Note: The lowest balance in the fund after 2014 is \$123,307 in 2036 when the streets receive a 2" overlay. In subsequent years the fund recovers to a balance of \$245,714 by year 2046.

In summary, this analysis indicates that First Eagles Point Homeowners Association is setting aside sufficient reserves to meet all of its reserve fund expenses as they come do to 2046 and beyond.