

HILLER HIGHLANDS I ASSOCIATION

FINANCIAL STATEMENTS

Year Ended December 31, 2015

KILIAN & COMPANY

Certified Public Accountants

HILLER HIGHLANDS I HOMEOWNERS ASSOCIATION
FINANCIAL STATEMENTS
Year Ended December 31, 2015

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Board of Directors and Members
Hiller Highlands I Association
Oakland, California

We have reviewed the accompanying balance sheet of the Hiller Highlands I Association (Association) as of December 31, 2015 and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based upon our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Kilian & Company

July 12, 2016

A Professional Corporation

HILLER HIGHLANDS I ASSOCIATION
BALANCE SHEET
December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
ASSETS			
Cash and cash equivalents	\$ 17,088	\$ 218,981	\$ 236,069
Certificate of deposit	-	66,395	66,395
Prepaid earthquake insurance	33,200	-	33,200
Prepaid income taxes	<u>350</u>	<u>-</u>	<u>350</u>
	<u><u>\$ 50,638</u></u>	<u><u>\$ 285,376</u></u>	<u><u>\$ 336,014</u></u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Liability for replacement of major components (Note 3)	-	-	-
Commitments and contingencies (Note 4)	<u>-</u>	<u>-</u>	<u>-</u>
	-	-	-
FUND BALANCES	<u>50,638</u>	<u>285,376</u>	<u>336,014</u>
	<u><u>\$ 50,638</u></u>	<u><u>\$ 285,376</u></u>	<u><u>\$ 336,014</u></u>

See independent accountant's review report and accompanying notes.

HILLER HIGHLANDS I ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total Funds
REVENUES			
Homeowners assessments	\$ 153,642	\$ -	\$ 153,642
Interest income	-	649	649
Late charges and other	503	-	503
	<u>154,145</u>	<u>649</u>	<u>154,794</u>
EXPENSES			
Insurance	33,852	-	33,852
Insurance - earthquake	34,299	-	34,299
Gas and electricity	3,392	-	3,392
Water and sewer	19,673	-	19,673
Maintenance	1,319	-	1,319
Landscape	23,405	-	23,405
Office expenses	244	-	244
Licenses and fees	421	-	421
Legal and accounting	900	-	900
Reserve study	1,350	-	1,350
Annual meeting	251	-	251
Mailboxes	-	7,077	7,077
Miscellaneous	205	-	205
	<u>119,311</u>	<u>7,077</u>	<u>126,388</u>
Excess (deficiency) of revenues over expenses	34,834	(6,428)	28,406
Beginning fund balances	48,288	259,320	307,608
Interfund transfers	<u>(32,484)</u>	<u>32,484</u>	<u>-</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u><u>\$ 50,638</u></u>	<u><u>\$ 285,376</u></u>	<u><u>\$ 336,014</u></u>

See independent accountant's review report and accompanying notes.

HILLER HIGHLANDS I ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
OPERATING ACTIVITIES:			
Excess (deficiency) of revenues over expenses	\$ 34,834	\$ (6,428)	\$ 28,406
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	303	-	303
(Decrease) increase in:			
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	35,137	(6,428)	28,709
FINANCING ACTIVITIES:			
Interfund transfers	<u>(32,484)</u>	<u>32,484</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	2,653	26,056	28,709
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,435</u>	<u>259,320</u>	<u>273,755</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 17,088</u>	<u>\$ 285,376 *</u>	<u>\$ 302,464</u>
* Comprised of:			
Union Bank, MM, Int. 0.15%		\$ 218,981	
Mission National Bank, C/D, Int. 0.5013%, Mat. 12/11/16		<u>66,395</u>	
		<u>\$ 285,376</u>	
SUPPLEMENTAL DISCLOSURES			
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent accountant's review report and accompanying notes.

HILLER HIGHLANDS I ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
Year Ended December 31, 2015

1. ORGANIZATION

Hiller Highlands I Association (the Association) is a common interest development located in Oakland, California that consists of 34 residences and certain common area property. The Association was incorporated as a California nonprofit corporation on May 3, 1966 to provide for management and maintenance of the common area property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The accounts of the Association are maintained, and the accompanying financial statements are prepared, on the accrual basis of accounting.

(b) Fund Accounting

The funds of the Association are segregated according to the fund method of accounting. This methodology requires that funds, such as funds for operations, and funds for future major repairs and replacements, be classified separately for accounting and financial reporting purposes.

(c) Real and Personal Common Property

Real common property acquired by the original homeowners from the developer is not recognized on the Association's financial statements, because it is commonly owned by individual owners and its disposition by the Board of Directors is restricted. Similarly, replacements and improvements to real common property are not recognized.

(d) Revenue Recognition

Regular assessments to members are recognized as revenue during the period or which they are assessed. Assessments received in advance of this period are reported as assessments received in advance on the balance sheet and represent dues that are retained by the Association for use in the succeeding year.

(e) Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

See independent accountant's review report.

HILLER HIGHLANDS I ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
Year Ended December 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Assessments Receivable

Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain a collection service and/or legal counsel and place liens of the properties of owners whose assessments are delinquent. In certain instances, foreclosure may be necessary. The collection process is explained in greater detail in the annually distributed delinquent assessment collection policy. The Board of Directors believes that the Association's delinquency policy and procedures will result in the collection of assessments receivable at December 31, 2015.

(g) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

(h) Income Taxes

Homeowners associations are not taxed on amounts received as assessments from owners, subject to certain regulations and the timely filing of tax returns. Income taxes are paid on income sources other than that related to the tax-exempt purposes of the Association, net of their related expenses. Non-exempt income on which the Association is taxable consists of interest income.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the tax returns are filed. Therefore, the Association's federal and state income tax returns for 2014, 2013 and 2012 (and 2011 for California only) remain open for examination.

(i) Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term instruments purchased with a maturity of three months or less to be cash equivalents.

See independent accountant's review report.

HILLER HIGHLANDS I ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
Year Ended December 31, 2015

3. LIABILITY FOR REPLACEMENT OF MAJOR COMPONENTS

The Association's governing documents, and California state law (Civil Code Section 1365), require that the Board of Directors provide for the maintenance, repair and replacement of the common area property. The Association has had a replacement reserve study performed on April 26, 2016 by Reserve Studies by Reserve Funding. This replacement reserve study is a guide for the Board and future Boards to budget funds for long-term replacement of major components.

Based on estimated current replacement costs of \$638,769 (as of December 31, 2016) the updated replacement reserve study indicates that as of December 31, 2016 the amount that was recommended as the replacement fund cash balance was approximately \$279,363. Therefore the projected replacement fund balance as of December 31, 2016 (approximately \$99,604) does not represent 100% funding of the anticipated future major repairs and replacements for this replacement reserve study.

As was disclosed in the 2016 Monthly Assessment Allocation Table, each home is charged a monthly assessment based upon the size of their unit. On average, each home pays \$416.00 per month in assessments. No special assessment is anticipated in 2016. The largest single expenditure is for earthquake insurance.

With respect to projections for operations and replacement component revenues and expenses, it is inevitable that some assumptions may not materialize and that unanticipated events and circumstance may occur subsequent to the date of the projections.

Accordingly, the current funding program may or may not be sufficient to meet all future major component repair and replacement costs. The ability of the Association to meet all future major component repair and replacement costs is dependent upon annual increases in that portion of the regular assessment which is allocated to the replacement fund, and/or special assessments. In the event that sufficient funds are not available for the repair and replacement of major components, the Board may increase regular assessments; levy special assessments, or delay repair and replacement until sufficient assessments are available.

4. COMMITMENTS

The association contracts for certain maintenance services on an annual basis. The contracts are generally cancelable on 30 to 90 days notice.

5. DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 12, 2016, the date that the financial statements were available to be issued.

See independent accountant's review report.

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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

The Board of Directors and Members
Hiller Highlands I Association
Oakland, California

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 9 be presented to supplement the basic financial statements. Such information, although not 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 historic context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, we do not express an opinion or provide any assurance on such required supplementary information.

Kilian & Company

July 12, 2016

HILLER HIGHLANDS I ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE REPAIRS
AND REPLACEMENTS (COMPILED)
Year Ended December 31, 2015

The Association has had a replacement fund study performed by, Reserve Studies by Reserve Funding, dated April 26, 2016 to estimate the remaining lives and replacement costs of the components or common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the end of their useful lives. The assumed long-term inflation and interest rates are 1.02% and 0.34%, respectively.

The following table is based on the updated reserve study and represents significant information about the components of common property:

	Est. Rem. Life as of <u>12/31/15</u>		Current Replacement Cost as of <u>12/31/16</u>		Replacement Fund Balance as of <u>12/31/15</u>
<u>COMPONENTS</u>					
Streets/Asphalt					
Asphalt Repairs/Seal/	0 - 4	\$	19,942	\$	
Asphalt Overlay Replacement	0		130,923		
Painting	1		12,045		
Lighting	4 - 6		36,060		
Doors	18		16,000		
French Drain	7		12,500		
Fence: Wood	3		1,980		
Decks	4		24,000		
Railings	4 - 13		19,524		
Waste Product: Line Replacement	0		130,000		
Sewer lateral Replacement	16		185,000		
Signs	3		1,800		
Mailboxes	22		7,077		
Irrigation	0 - 6		9,068		
Landscaping	3 - 6		32,850		
Replacement Fund Balance			-		285,376
		\$	638,769	\$	285,376

See independent accountant's review and compilation reports.