

**WESTCHESTER PLACE  
HOMEOWNER'S ASSOCIATION**

**FINANCIAL STATEMENTS  
and  
SUPPLEMENTARY INFORMATION**

**Year ended December 31, 2013 with  
comparative totals for 2012**

**with**

**Independent Auditor's Report**

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# NYBORG & COMPANY, LTD.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Westchester Place Homeowner's Association  
Westchester, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Westchester Place Homeowner's Association, which comprise the balance sheets as of December 31, 2013, and the related statements of revenue, expenditures and changes in fund balances 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 judgement, 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 Westchester Place Homeowner's 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.

## Report on Summarized Comparative Information

We have previously audited Westchester Place Homeowner's Association's 2012 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 12, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of certain balance sheet account groups (page 10), revenue over (under) expenditures (page 11), revenue accounts (page 12) and expenditures (page 13) are presented for purposes of additional analysis and are 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 budget information which was compiled without audit or review from information that is the representation of management, on which we do not express an opinion or any other form of assurance) 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.

## Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 14 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. 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.

Batavia, Illinois  
March 20, 2014



**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**  
**BALANCE SHEETS**

**December 31, 2013 with comparative totals for 2012**

	2013			2012 Total
	Operating Fund	Replacement Fund	Total	
<b>ASSETS</b>				
Cash, including interest-bearing accounts	\$ 55,279	332,061	387,340	383,388
Accounts receivable	9,568		9,568	5,779
Prepaid expenses	17,995		17,995	12,240
Due from replacement fund	658		658	62,884
<b>TOTAL ASSETS</b>	<b>\$ 83,500</b>	<b>332,061</b>	<b>415,561</b>	<b>464,291</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Assessments received in advance	22,432		22,432	17,291
Due to operating fund		658	658	62,884
<b>TOTAL LIABILITIES</b>	<b>22,432</b>	<b>658</b>	<b>23,090</b>	<b>80,175</b>
<b>FUND BALANCES</b>				
Available for operations	61,068		61,068	119,390
Available for replacement of common areas and townhome exteriors		331,403	331,403	264,726
<b>TOTAL FUND BALANCES</b>	<b>61,068</b>	<b>331,403</b>	<b>392,471</b>	<b>384,116</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 83,500</b>	<b>332,061</b>	<b>415,561</b>	<b>464,291</b>

See accompanying notes to financial statements.

**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**  
**STATEMENTS OF REVENUE, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**

Year ended December 31, 2013 with comparative totals for 2012

	2013			2012 Total
	Operating Fund	Replacement Fund	Total	
<b>REVENUE</b>				
Owner assessments	\$ 377,935	62,225	440,160	440,160
Interest		4,452	4,452	3,430
Other	181,790		181,790	1,835
<b>TOTAL REVENUE</b>	<u>559,725</u>	<u>66,677</u>	<u>626,402</u>	<u>445,425</u>
<b>EXPENDITURES</b>				
General and administrative	53,100		53,100	44,472
Operating	80,733		80,733	59,405
Maintenance and repairs	362,193		362,193	150,348
Insurance	83,796		83,796	62,595
Capital expenditures	38,225		38,225	46,588
<b>TOTAL EXPENDITURES</b>	<u>618,047</u>		<u>618,047</u>	<u>363,408</u>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	(58,322)	66,677	8,355	82,017
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	119,390	264,726	384,116	302,099
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 61,068</u>	<u>331,403</u>	<u>392,471</u>	<u>384,116</u>

See accompanying notes to financial statements.

# WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION

## STATEMENTS OF CASH FLOWS

Year ended December 31, 2013 with comparative totals for 2012

	2013			2012 Total
	Operating Fund	Replacement Fund	Total	
<b>CASH AT BEGINNING OF YEAR</b>	\$ 55,778	327,610	383,388	306,034
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Owner assessments received	379,287	62,225	441,512	438,119
Interest received		4,452	4,452	3,430
Other revenue received	181,790		181,790	1,835
Operating expenses paid	(585,577)		(585,577)	(319,442)
Capital expenditures paid	(38,225)		(38,225)	(46,588)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	(62,725)	66,677	3,952	77,354
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interfund borrowings	62,226	(62,226)		
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	62,226	(62,226)		
<b>NET INCREASE (DECREASE) IN CASH</b>	(499)	4,451	3,952	77,354
<b>CASH AT END OF YEAR</b>	\$ 55,279	332,061	387,340	383,388

Continued...

See accompanying notes to financial statements.

**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**

**STATEMENTS OF CASH FLOWS**

**Year ended December 31, 2013 with comparative totals for 2012**

	2013			2012 Total
	Operating Fund	Replacement Fund	Total	
...Continued				
<b>RECONCILIATION OF REVENUE OVER (UNDER) EXPENDITURES TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>				
Revenue over (under) expenditures	\$ (58,322)	66,677	8,355	82,017
Effects of all deferrals and accruals on operating receipts and payments:				
Changes in accounts receivable	(3,789)		(3,789)	(2,903)
Changes in prepaid expenses	(5,755)		(5,755)	(489)
Changes in accounts payable and accrued expenditures				(2,133)
Changes in assessments received in advance	5,141		5,141	862
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ (62,725)</b>	<b>66,677</b>	<b>3,952</b>	<b>77,354</b>

See accompanying notes to financial statements.



# WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

### 1. Significant accounting policies

The Westchester Place Homeowner's Association (the "Association") financial statements and income tax returns are prepared on the accrual basis of accounting, which recognizes revenue when it is earned or due and expenditures when they are incurred.

The Association uses the fund method of accounting which requires that funds such as operating funds and funds restricted for future major repairs and replacements be classified separately for accounting and reporting purposes. Expenses from the operating fund are generally at the discretion of the Board of Directors, while expenditures from the replacement fund are to be made only for their designated purposes.

Cash, including interest-bearing accounts consist of all checking accounts and certificates of deposit. Insurance costs are amortized over the periods covered by the premiums.

Accounts receivable are owner obligations due for unpaid assessments and other monthly charges. Payments on receivables that are received after a 15-day grace period are assessed a late fee of \$25. Late fees are recognized as income when billed. Accounts receivable are stated at the amount billed to the owner. Owner account balances with invoices dated over 30 days old are considered delinquent. Payments of accounts receivable are allocated to the specific charges identified on the owner's remittance advice or, if unspecified, are applied to the earliest unpaid balance.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting periods. Actual results could differ from those estimates.

### 2. Date of management's review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 20, 2014, the date that the financial statements were available to be issued.

### **3. Association organization and operations**

The Association, which began operation on June 8, 1984, is an Illinois not-for-profit corporation responsible for the direction and administration of certain property held in trust under a Declaration of Covenants, Conditions and Restrictions. The Association, which encompasses 262 assessable residential lots, is the governing body for all of the owners to provide for the maintenance, repair, replacement, administration and operation of the property, and the exterior of the individual townhomes, covered by its Declaration.

The Board of Directors, elected by the owners in accordance with the Declaration, is responsible for the Association's management, including establishment of budgets used to determine assessments and other financial matters. Assessments for operation and maintenance of the Association and for future capital replacements and improvements of its common areas and townhome exteriors are charged to owners equally on a per owner basis.

The owners hold title to their individual townhomes. The common areas include private streets and sidewalks, lighting and parking areas. As of December 31, 2013, the property was insured at its guaranteed replacement cost. The common areas are not subject to real estate taxes because the common areas are assessed at a value of \$1.

### **4. Income taxes**

Under current federal income tax laws, a homeowners' association may elect each year to file its federal income tax return as a not-for-profit homeowners' association or as a for-profit corporation. The Association filed its 2012 income tax returns as a for-profit corporation with no income tax liability. The Association intends to file its 2013 income tax returns as a not-for-profit homeowners' association with no income tax liability.

For income tax purposes, as of December 31, 2013, the Association has cumulative net operating losses for federal purposes in the amount of \$7,770 if the for-profit corporation method of reporting is elected, and for state purposes has cumulative net losses in the amount of \$43,138. The cumulative net operating losses begin to expire in 2014.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns for 2012, 2011 and 2010 remain open to examination by the Internal Revenue Service and by the state. In evaluating the Association's tax provision and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

### **5. 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 accounts and are generally not available for normal operating expenses.

A commission of the Association, which included all the Board of Directors, conducted a study in 2012 to estimate the remaining useful lives and the replacement costs of the roofs, gutters and downspouts. The study does not disclose the rates of interest and inflation used for funding and replacement costs. The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of 2012 replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$63,159 has been included in the 2014 budget.

Funds are being accumulated in the replacement fund based on estimated 2012 replacement costs for the roofs, gutters and downspouts. Actual expenditures 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 replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available. As of December 31, 2013, the Association had accumulated \$331,403 of equity which is available to meet future capital replacement requirements.

## **6. Fair value**

In determining fair value, the Association uses various valuation approaches for fair value measurement within FASB ASC 820. Fair value measurements are determined based on the assumptions that the market participants would use in pricing an asset or liability.

FASB ASC 820 established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the uses of unobservable inputs by requiring that the most observable inputs be used when available. The defined levels within the hierarchy based on the reliability of inputs are as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The Association measures fair value for certificates of deposit as classified within Level 2 of the valuation hierarchy. The Association does have a materiality threshold for adjusting to fair value, and believes all cash reflects fair value at December 31, 2013 with no material variance.

SUPPLEMENTARY INFORMATION

**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**  
**SCHEDULE OF CERTAIN BALANCE SHEET ACCOUNT GROUPS**  
**December 31, 2013 with comparative totals for 2012**

	2013 Total	2012 Total
<b>CASH, INCLUDING INTEREST-BEARING ACCOUNTS</b>		
Checking	\$ 55,279	55,778
Certificates of deposit	332,061	327,610
	\$ 387,340	383,388
 <b>ACCOUNTS RECEIVABLE</b>		
Assessments, and other amounts due from owners	\$ 9,568	5,779
 <b>ASSESSMENTS RECEIVED IN ADVANCE</b>		
Assessments received in advance	\$ 22,432	17,291

**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**  
**SCHEDULE OF REVENUE OVER (UNDER) EXPENDITURES**  
Year ended December 31, 2013 with comparative totals for 2012

	2013			*Budget	2012 Total
	Operating Fund	Replacement Fund	Total		
<b>REVENUE</b>					
Owner assessments	\$ 377,935	62,225	440,160	440,160	440,160
Interest		4,452	4,452	4,000	3,430
Other	181,790		181,790	2,000	1,835
<b>TOTAL REVENUE</b>	<b>559,725</b>	<b>66,677</b>	<b>626,402</b>	<b>446,160</b>	<b>445,425</b>
<b>EXPENDITURES</b>					
General and administrative	53,100		53,100	52,311	44,472
Operating	80,733		80,733	79,624	59,405
Maintenance and repairs	362,193		362,193	161,000	150,348
Insurance	83,796		83,796	58,000	62,595
Capital expenditures	38,225		38,225	95,225	46,588
<b>TOTAL EXPENDITURES</b>	<b>618,047</b>		<b>618,047</b>	<b>446,160</b>	<b>363,408</b>
<b>REVENUE OVER (UNDER) EXPENDITURES</b>	<b>\$ (58,322)</b>	<b>66,677</b>	<b>8,355</b>		<b>82,017</b>

\*Unaudited

**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**

**SCHEDULE OF REVENUE ACCOUNTS**

**Year ended December 31, 2013 with comparative totals for 2012**

	<b>2013</b>		<b>2012</b>
	<b>*Budget</b>	<b>Actual</b>	<b>Actual</b>
<b>REVENUE</b>			
Owner assessments	\$ 440,160	440,160	440,160
Interest	4,000	4,452	3,430
Other			
Late fees	2,000	2,045	1,835
Insurance claim-fire		179,745	
	2,000	181,790	1,835
<b>TOTAL REVENUE</b>	<b>\$ 446,160</b>	<b>626,402</b>	<b>445,425</b>

**\*Unaudited**

# WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION

## SCHEDULE OF EXPENDITURES

Year ended December 31, 2013 with comparative totals for 2012

	2013		2012
	*Budget	Actual	Actual
<b>GENERAL AND ADMINISTRATIVE</b>			
Management	\$ 19,336	19,336	18,864
Bookkeeping	15,775	15,275	15,210
Legal	9,000	8,407	
Audit	4,200	4,000	3,900
Postage and printing	2,000	3,843	1,603
Office and administrative	2,000	2,239	4,895
<b>Total general and administrative</b>	52,311	53,100	44,472
<b>OPERATING</b>			
Landscaping	47,624	47,624	46,240
Snow removal	30,000	31,737	11,582
Water and sewer	1,600	1,141	1,390
Electricity	400	231	193
<b>Total operating</b>	79,624	80,733	59,405
<b>MAINTENANCE AND REPAIRS</b>			
Painting and stucco	100,000	125,479	94,638
Landscaping	35,000	19,221	29,751
Streets and asphalt	9,000	20,005	
Gutter and downspout	8,000	6,950	6,982
Tuckpointing	5,000	5,870	12,647
Roof	3,000		1,914
Electric and bulbs	1,000	2,423	4,416
Insurance claim-fire		182,245	
<b>Total maintenance and repairs</b>	161,000	362,193	150,348
<b>INSURANCE</b>	58,000	83,796	62,595
<b>CAPITAL EXPENDITURES</b>			
Roofs, gutters and downspouts	62,225		
Concrete driveways and stoops	33,000	38,225	39,393
Entrance monument			7,195
<b>Total capital expenditures</b>	95,225	38,225	46,588
<b>TOTAL EXPENDITURES</b>	\$ 446,160	618,047	363,408

\*Unaudited



**WESTCHESTER PLACE HOMEOWNER'S ASSOCIATION**  
**SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS**

**December 31, 2013**

(UNAUDITED)

A commission of the Association, which included all the Board of Directors, conducted a study in 2012 to estimate the remaining useful lives and the replacement costs of the roofs, gutters and downspouts. The estimates were based on 2012 estimated replacement costs. The study does not disclose the rates of interest and inflation used for funding and replacement costs.

The following table is based on the study and presents significant information about the components of common areas and the townhome exteriors.

Components	2012 Estimated remaining useful lives	2012 Estimated replacement cost	2014 Funding requirement	Components of fund balance at Dec. 31, 2013
Roofs	11-13 yrs	\$ 1,063,720		
Gutters and downspouts	18 yrs	180,780		
		<u>\$ 1,244,500</u>	<u>\$ 63,159</u>	<u>\$331,403</u>