

**HOMEOWNERS ASSOCIATION OF
HOMESTEAD FARM II**

**INDEPENDENT AUDITOR'S REPORT
ON
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2012

(With Comparative Totals for 2011)

Table of Contents

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Fund Balance.....	3
Statement of Cash Flows	4
Notes to Financial Statements	5
SUPPLEMENTARY INFORMATION:	
Supplementary Information on Future Major Repairs and Replacements	9

GRIFFIN CONSULTING, P.C.
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 460183
AURORA, CO 80046
PHONE: 303.934.7474
FAX: 303.934.7333

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Homeowners
Homeowners Association of Homestead Farm II
Arapahoe County, Colorado

I have audited the accompanying balance sheet of Homeowners Association of Homestead Farm II as of December 31, 2012, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homeowners Association of Homestead Farm II as of December 31, 2012, 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.

Information for the year ended December 31, 2011 is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which I expressed an unqualified opinion in my report dated February 13, 2012.

The Supplementary Information on Future Major Repairs and Replacements on Page Nine is not a required part of the basic financial statements of Homeowners Association of Homestead Farm II but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Griffin Consulting, P.C.

Denver, Colorado
February 10, 2013

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

BALANCE SHEET

DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	2012			(For Comparative Purposes Only) 2011
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
ASSETS				
Cash and cash equivalents	\$ 14,246	\$ 323,676	\$ 337,922	\$ 312,289
Accounts receivable-homeowners	4,237		4,237	3,434
Prepaid insurance	2,234		2,234	2,163
Prepaid income taxes	-		-	1,275
TOTAL ASSETS	\$ 20,717	\$ 323,676	\$ 344,393	\$ 319,161
LIABILITIES				
Accounts payable	4,863		4,863	5,984
Payroll tax payable	123		123	123
Income taxes payable	-		-	-
TOTAL LIABILITIES	4,986	-	4,986	6,107
CONTINGENCIES	-	-	-	-
FUND BALANCE				
Contributed capital	300		300	300
Fund balance(deficit)	15,431	323,676	339,107	312,754
TOTAL FUND BALANCE	15,731	323,676	339,407	313,054
TOTAL LIABILITIES AND FUND BALANCE	\$ 20,717	\$ 323,676	\$ 344,393	\$ 319,161

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

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	2012			(For Comparative Purposes Only) 2011
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
REVENUES				
Homeowner assessments	\$ 210,827	\$ 63,858	\$ 274,685	\$ 268,670
Swim team/lessons	17,630		17,630	17,499
Newsletter	3,798		3,798	3,145
Transfer fees	1,800		1,800	1,500
Pool rental	1,714		1,714	1,115
Late interest and other fees	1,509		1,509	1,098
Interest on investments	279	504	783	1,346
TOTAL REVENUES	237,557	64,362	301,919	294,373
EXPENSES				
Wages	59,014		59,014	53,076
Trash removal	54,568		54,568	57,163
Grounds maintenance	47,518	5,947	53,465	41,192
Pool maintenance	28,111	25,550	53,661	36,237
Water and sewer	18,482		18,482	8,144
Payroll taxes	5,908		5,908	5,586
Insurance	5,081		5,081	4,972
Printing and newsletter	4,248		4,248	7,305
Accounting and legal	3,726		3,726	2,200
Social events	3,715		3,715	2,726
Property tax	1,403		1,403	1,364
Supplies, postage, and other administrative	1,095		1,095	2,295
Bank service charges	592		592	574
Tennis court maintenance	172	10,360	10,532	99,724
Bad debt	76		76	670
TOTAL EXPENSES	233,709	41,857	275,566	323,228
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	3,848	22,505	26,353	(28,855)
FUND BALANCES - BEGINNING OF YEAR	11,583	301,171	312,754	341,609
FUND BALANCES(DEFICIT) - END OF YEAR	\$ 15,431	\$ 323,676	\$ 339,107	\$ 312,754

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

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

(WITH COMPARATIVE TOTALS FOR 2011)

	2012			(For Comparative Purposes Only) 2011
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenues over expenses	\$ 3,848	\$ 22,505	\$ 26,353	\$ (28,855)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase)decrease in accounts receivable	(803)		(803)	(1,340)
(Increase)decrease in prepaid insurance	(71)		(71)	(2)
(Increase)decrease in prepaid income tax	1,275		1,275	-
Increase(decrease) in accounts payable	(1,121)		(1,121)	753
Increase(decrease) in payroll taxes payable	-		-	123
Increase(decrease) in income taxes payable	-		-	-
Interfund transfers	-	-	-	-
Net Cash Provided by Operating Activities	3,128	22,505	25,633	(29,321)
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase)decrease in investments	-	-	-	-
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	3,128	22,505	25,633	(29,321)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	11,118	301,171	312,289	341,610
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 14,246	\$ 323,676	\$ 337,922	\$ 312,289
SUPPLEMENTAL INFORMATION:				
Income taxes paid	\$ -		\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -	\$ -

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

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

Note 1 – Organization

Homeowners Association of Homestead Farm II (the Association) is a homeowners association, which was incorporated in 1980 as a Colorado non-profit corporation for the purpose of managing, maintaining and preserving the common area property on behalf of the members of the Association. The association consists of 401 residential units and is located in Arapahoe County, Colorado.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements and related income tax returns for the Association have been prepared in accordance with the accrual method of accounting.

Fund Accounting

The accounts of the Association are maintained in accordance with fund accounting whereby resources are classified for reporting purposes into funds with specified activities or purposes.

The assets, liabilities and fund balances of the Association are reported in two self-balancing fund groups as follows:

Operating fund includes unrestricted and restricted resources and represents the portion of expendable funds that is available for support of annual maintenance and operational activities.

Replacement fund represents resources collected and expended for, or designated by the Board for, the major repair or replacement of common area property.

Recognition of Assets and Depreciation Policy

Common area property acquired from the developer has been deeded to the Association for the common use and enjoyment of the owners. Common area property consists of tennis courts, pool, and recreational areas. The value of the common areas transferred by the developer is not reasonably determinable, and therefore, such property is not reflected in these financial statements.

Property, as acquired, will be recorded at acquisition cost. Depreciation will be computed using the method most advantageous to the Association, either the straight-line or the accelerated methods of depreciation. The estimated useful lives of the assets will generally

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

Note 2 – Summary of Significant Accounting Policies (continued)

range from 3 – 7 years.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 – Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Association's cash and cash equivalents at December 31, 2012 consisted of checking and savings account balances of \$14,246 in the operating fund and savings account balances of \$323,676 in the replacement fund.

Note 4 – Member Assessments

Association members are subject to annual assessments to provide funds for operating expenses, future capital acquisitions and major repairs and replacement. Accounts receivable – homeowners at December 31, 2012 represent assessments, late fees and other charges due from homeowners. The Association's Declaration of Covenants, Conditions and Restrictions provides for various collection remedies for delinquent assessments including the filing of liens, and the foreclosing on the homeowner's unit.

The annual budget and assessments of members are determined by the Board of Directors. Annual assessments charged to owners during 2012 were \$685. During 2012, the annual assessment for the Association was \$274,685 of which \$63,858 was transferred to the replacement fund.

Any increase in annual assessments by more than the formula provided in Article VI, Section 3, of the Declarations, Conditions and Restrictions requires the affirmative vote of not less than two-thirds (2/3) of the eligible votes of each class of members voting in person or by

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

Note 4 – Member Assessments (continued)

proxy at a special meeting called for that purpose. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Note 5 – Securities Held to Maturity

The Association adopted Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Securities that the Association has the positive intent and ability to hold to maturity are classified as **held to maturity** and carried at amortized cost.

Note 6 – Income Taxes

The Association elected to file its tax return as a homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2012. The Association filed its tax returns (federal and state) using the accrual basis of accounting. The Association is taxed on its non-exempt income which consisted mainly of interest on investments. The Association had no tax liability at December 31, 2012 for federal and state purposes.

Note 7 – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are presently held in savings accounts and certificates of deposit and generally are not available for expenditures for normal operations.

During the year ended December 31, 2012, assessments of \$63,858 were transferred to major repairs and replacement reserves. Additionally, interest income earned from the investments totaled \$783. The Association incurred reserve expenditures of \$41,857 for the year. A 15-year capital budget is prepared annually by the Board of Directors to determine the adequacy of the current funding program for the replacement of Association common area elements. The estimates are based on current costs. The Table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this capital budget.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

Note 7 – Future Major Repairs and Replacements (continued)

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.

The Association has not included funding for the perimeter fence in the study as it is not considered common property of the Association.

Note 8 – Subsequent Events

Management has evaluated subsequent events through February 10, 2013, the date the financials were available to be issued. No significant subsequent events have been identified that would require of or disclosure in the accompanying financial statements.

Note 9 - Contingencies

The Association, on occasion, may be a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association. However, no such activities existed at December 31, 2012.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
(UNAUDITED)**

DECEMBER 31, 2012

Each year the Board of Directors reviews the remaining useful lives and the replacement costs of the components of common property. The study incorporates a 4% inflation rate and a 3% growth rate.

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

<u>COMPONENT</u>	<u>ESTIMATED REMAINING USEFUL LIFE</u>	<u>ESTIMATED FUTURE REPLACEMENT COSTS</u>
Pool	Work done each year thru 2027	\$ 436,300
Tennis	Work done in the years 2017 & 2022	13,241
Landscape	Work done each year thru 2027	569,440
TOTAL		<u>\$ 1,018,981</u> =====
Current replacement fund balance at December 31, 2012		\$ 323,676 =====