

Homeowners Association of Homestead Farm II

Audited Financial Statements
December 31, 2016



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Homeowners Association of Homestead Farm II, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in member's equity and cash flows for the period 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 risk 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 Homeowners Association of Homestead Farm II, at December 31, 2016 and the results of its operations and its cash flows for the period then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Schedule of Future Major Repairs and Replacements on 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.

Griffin Group, CPA

Denver, Colorado
February 24, 2017

Homeowners Association of Homestead Farm II
December 31, 2016

Balance Sheet

	Operating Fund	Replacement Fund	Total
ASSETS:			
Cash and cash equivalents	\$ 23,366	\$ 496,981	\$ 520,347
Accounts receivable	108	-	108
Prepaid insurance	3,059	-	3,059
TOTAL ASSETS	\$ 26,533	\$ 496,981	\$ 523,514
LIABILITIES:			
Accounts payable	\$ 8,282	\$ -	\$ 8,282
Prepaid assessments	745	-	745
Total liabilities	9,027	-	9,027
MEMBER'S EQUITY:			
Contributed capital	300	-	300
Fund balance (deficit)	17,206	496,981	514,187
Total member's equity	17,506	496,981	514,487
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 26,533	\$ 496,981	\$ 523,514

See accompanying notes to the financial statements.

Homeowners Association of Homestead Farm II

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Statement of Revenues, Expenses and Changes in Member's Equity

	Operating Fund	Replacement Fund	Total
REVENUES:			
Member assessments	\$ 268,745	\$ 30,000	\$ 298,745
Swim team	14,857	-	14,857
Newsletter	2,370	-	2,370
Late fees and other income	3,217	-	3,217
Interest income	135	474	609
Total revenues	289,324	30,474	319,798
EXPENSES:			
Administrative office	7,835	-	7,835
Grounds maintenance	49,755	18,144	67,899
Insurance	6,704	-	6,704
Payroll	18,085	-	18,085
Payroll taxes	1,649	-	1,649
Pool	66,705	-	66,705
Professional fees	3,957	-	3,957
Property tax	1,534	-	1,534
Social committee	4,222	-	4,222
Tennis courts	1,004	1,308	2,312
Trash removal	63,809	-	63,809
Water	37,807	-	37,807
Total expenses	263,066	19,452	282,518
Excess (deficit) of revenues over expenses	26,258	11,022	37,280
MEMBER'S EQUITY:			
Beginning of year	10,700	466,507	477,207
Interfund transfers	19,452	(19,452)	-
END OF YEAR	\$ 17,506	\$ 496,981	\$ 514,487

See accompanying notes to the financial statements.

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Statement of Cash Flows

	Operating Fund	Replacement Fund	Total
OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	\$ 26,258	\$ 11,022	\$ 37,280
Interfund transfers	(19,452)	19,452	-
Adjustments to reconcile excess (deficit) to cash:			
Decrease (increase) in operating assets:			
Accounts receivable	931	-	931
Prepaid expenses	(429)	-	(429)
Increase (decrease) in operating liabilities:			
Accounts payable	2,970	-	2,970
Prepaid assessments	745	-	745
Cash provided by (used from) operating activities	11,023	30,474	41,497
Net increase (decrease) in cash and cash equivalents	11,023	30,474	41,497
CASH AND CASH EQUIVALENTS:			
Beginning of year	12,343	466,507	478,850
END OF YEAR	\$ 23,366	\$ 496,981	\$ 520,347
Supplemental information:			
Cash paid for income taxes	\$ -	\$ -	\$ -
Cash paid for interest	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

Homeowners Association of Homestead Farm II

December 31, 2016

Notes to the Financial Statements

(1) NATURE OF THE ORGANIZATION

Homeowners Association of Homestead Farm II (the "Association") is a nonprofit corporation organized pursuant to the laws of Colorado on May 30, 1980. The Association was formed to maintain all common property and to govern the community in accordance with the governing documents. The community consists of 401 privately owned residential homes located in Arapahoe County, Colorado.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Accounting Standards Codification as produced by the Financial Accounting Standards Board is the sole source of authoritative GAAP for non-governmental entities.

Basis of Presentation

The Association's governing documents provide certain guidelines for governing its financial activities which includes using a system of fund accounting to classify financial resources to their intended purpose.

The Operating Fund is used to account and report for the use of operating resources.

The Replacement Fund is used to account and report for resources designated for future major repairs and replacement.

Funding Policy

Assessments to unit owners for their proportionate share of common expenses and for funds designated for future major repairs and replacements are based upon a budget established by the board of directors. Special assessments may also be imposed from time to time as deemed appropriate. Any excess assessments at years' end are retained by the Association for use in future years.

Revenue Recognition

Regular member assessments are recognized as revenue during the period for which they are assessed. Assessments received in advance of the period are reported as prepaid assessments on the balance sheet.

Property

The real property acquired from the developer and related improvements to such property are not recognized assets on the balance sheet. Interests in the common elements are owned by the members in common. The Association is responsible to maintain all common property.

Asset Recognition

Significant purchase of personal property by the Association will be capitalized, at cost, and depreciated over the estimated useful lives of the assets using the straight-line method.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES * (Continued)

Use of Estimates

The preparation of these financial statements require the board of directors to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The board of directors base their estimates on historical experience and on various other assumptions and factors that are believed to be reasonable. Actual results may vary from these estimates, and such variations may be material.

(3) CONCENTRATION OF CREDIT RISK

The Federal Deposit Insurance Corporation ("FDIC") insures deposit accounts at the respective financial institutions up to \$250,000. The Association maintains balances, which at times, may exceed FDIC insurance levels. As of December 31, 2016, the Association's held a \$246,981 balance, in excess of those. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash.

(4) FEDERAL INCOME TAXES

The Association elects to file as a homeowners' association using form 1120-H, under Internal Revenue Code Section 528. Under that section, the Association is not taxed on income related to its exempt purpose, which consist primarily of member assessments. Nonexempt function income is taxed at 30%, however, for the period ended December 31, 2016 the Association had no federal tax liability.

The Association's federal tax filings are subject to examination for three years.

(5) FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents provide certain guidelines for governing its financial activities which includes that each proposed budget includes provisions for reserves for future major repairs and replacements. These accounts, if adopted, are restricted to their intended purpose unless modified by a vote of the board of directors.

The approved budget includes provisions for future major repairs and replacements. These funds are being accumulated based on estimated future costs. Actual results may vary from these estimates, and such 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.

(6) CASH AND CASH EQUIVALENTS

For purposes of the financial statements, cash and cash equivalents consists of all highly liquid instruments available for current use with original maturities of three (3) months or less, when purchased. Cash and cash equivalents are carried at historical cost, which approximates market value.

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Notes to the Financial Statements

(7) ACCOUNTS RECEIVABLE

The Association governing documents provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. In the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will prevail in most instances.

(8) COMMITMENTS

The Association has various contracts to maintain all common property. These contracts have different expiration dates and renewal terms.

(9) CONTINGENCIES

The Association is party to various legal actions normally associated with common interest communities, 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.

(10) SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 24, 2017 the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

Homeowners Association of Homestead Farm II
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Schedule of Future Major Repairs and Replacements

The Association has not conducted an independent study to estimate the useful life and the replacement costs of the significant components of common property, rather, has based estimates from historical experience. Actual results may vary from these estimates, and such 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.

The following table presents significant information about the components of common property as of the December 31, 2016:

(Amounts Adjusted for Estimated Inflation)

Year	Pool	Tennis	Landscape	Total
2017	\$ 7,400	\$ 1,150	\$ 22,750	\$ 31,300
2018	9,897	1,136	39,933	50,965
2019	26,434	11,755	28,603	66,792
2020	24,333	17,899	25,550	67,782
2021	87,782	6,996	93,570	188,348
2022	16,829	3,669	49,347	69,846
2023	11,317	7,369	27,303	45,989
2024	18,886	616	25,620	45,122
2025	25,264	640	306,337	332,241
2026	19,539	1,702	23,092	44,333
2027	26,787	16,087	28,739	71,612
2028	37,864	19,773	19,981	77,618
2029	4,995	-	24,157	29,152
2030	32,902	9,957	16,283	59,142
2031	50,101	9,821	26,570	86,492

See accompanying notes to the financial statements.