

Homeowners Association of Homestead Farm II

Audited Financial Statements
December 31, 2018



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Independent Auditors' Report

To the Board of Directors
Homeowners Association of Homestead Farm II

We have audited the accompanying financial statements of Homeowners Association of Homestead Farm II, which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in members' 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.

Auditors' 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 auditors' 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 auditors consider 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, 2018, 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 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 15, 2019

Homeowners Association of Homestead Farm II
December 31, 2018

Balance Sheet

	Operating Fund	Replacement Fund	Total
Assets:			
Cash and cash equivalents	\$ 14,954	\$ 424,322	\$ 439,276
Accounts receivable, net	193	-	193
Prepaid insurance	2,629	-	2,629
Total assets	\$ 17,776	\$ 424,322	\$ 442,098
Liabilities:			
Accounts payable	\$ 9,740	\$ -	\$ 9,740
Prepaid assessments	-	-	-
Total liabilities	9,740	-	9,740
Members' equity:			
Contributed capital	300	-	300
Fund balance (deficit)	7,736	424,322	432,058
Total members' equity	8,036	424,322	432,358
Total liabilities and members' equity	\$ 17,776	\$ 424,322	\$ 442,098

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

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Statement of Revenues, Expenses, and Changes in Members' Equity

	Operating Fund	Replacement Fund	Total
Revenues:			
Member assessments	\$ 259,122	\$ 57,668	\$ 316,790
Interest income	144	1,214	1,358
Late fees and other income	3,927	-	3,927
Newsletter	770	-	770
Swim team	12,274	-	12,274
Total revenues	276,237	58,882	335,119
Expenses:			
Administrative	11,313	-	11,313
Grounds maintenance	52,779	-	52,779
Insurance	5,975	-	5,975
Major repairs and replacements	-	155,938	155,938
Payroll	16,272	-	16,272
Payroll taxes	1,443	-	1,443
Pool maintenance	70,785	-	70,785
Professional	12,327	-	12,327
Property taxes	1,641	-	1,641
Social committee	4,625	-	4,625
Tennis courts maintenance	1,384	-	1,384
Trash removal	68,669	-	68,669
Water and sewer	39,062	-	39,062
Total expenses	286,275	155,938	442,213
Excess (deficit) of revenues over expenses	(10,038)	(97,056)	(107,094)
Members' equity:			
Beginning of year	18,074	521,378	539,452
End of Year	\$ 8,036	\$ 424,322	\$ 432,358

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

Homeowners Association of Homestead Farm II
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Statement of Cash Flows

	Operating Fund	Replacement Fund	Total
Operating activities:			
Excess (deficit) of revenues over expenses	\$ (10,038)	\$ (97,056)	\$ (107,094)
Decrease (increase) in operating assets:			
Accounts receivable, net	(48)	-	(48)
Prepaid insurance	(126)	-	(126)
Increase (decrease) in operating liabilities:			
Accounts payable	(1,152)	-	(1,152)
Cash provided by (used from) operating	(11,364)	(97,056)	(108,420)
Net change in cash and cash equivalents	(11,364)	(97,056)	(108,420)
Cash and cash equivalents:			
Beginning of year	26,318	521,378	547,696
End of year	\$ 14,954	\$ 424,322	\$ 439,276
Supplemental Information:			
Cash paid for income taxes	\$ -	\$ -	\$ -
Cash paid for interest	\$ -	\$ -	\$ -

The accompanying notes are an integral part of 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 single family 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.

Use of Estimates

The preparation of these financial statements requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Management 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 time, may exceed FDIC insurance levels. As of December 31, 2018, the Association held a \$174,322 balance in excess of those limits. 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 consists primarily of member assessments. Nonexempt function income is taxed at 30%, however, for the period ended December 31, 2018 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

Cash and cash equivalents consist of all highly liquid instruments available for current use and are carried at historical cost, which approximates market value.

(7) Accounts Receivable

The Association governing documents provide 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.

In determining the collectability of specific unit owner balances, management considers the number of days' delinquent and the owner's payment history.

(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 15, 2019 the date these financial statements were available to be issued. There was no material subsequent event that required recognition or additional disclosure in these financial statements.

Supplemental Information

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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.

The following table presents significant information about the components of common property:

(Amounts Adjusted for Estimated Inflation)

<u>Year</u>	<u>Pool</u>	<u>Tennis</u>	<u>Landscape</u>	<u>Total</u>
2019	\$ 226,430	\$ 6,050	\$ 34,000	\$ 266,480
2020	2,163	19,036	24,691	45,890
2021	7,874	14,511	26,322	48,707
2022	10,646	2,515	34,005	47,166
2023	17,398	3,893	436,535	457,826
2024	8,984	6,706	39,412	55,102
2025	15,528	1,184	28,056	44,768
2026	9,238	411	300,959	310,608
2027	18,788	3,060	24,424	46,272
2028	12,434	20,575	34,561	67,570
2029	121,078	21,860	23,215	166,153
2030	4,803	8,966	29,056	42,824
2031	28,306	9,324	23,378	61,008
2032	11,083	3,723	33,231	48,037
2033	8,540	3,558	17,023	29,121

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