

Homeowners Association of Homestead Farm II

Audited Financial Statements
December 31, 2020



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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, 2020, 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, 2020, 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
January 27, 2021
Revised on February 9, 2021

Homeowners Association of Homestead Farm II
December 31, 2020

Balance Sheet

	Operating Fund	Replacement Fund	Total
Assets:			
Cash and cash equivalents	\$ 22,585	\$ 299,554	\$ 322,139
Accounts receivable, net	162	-	162
Prepaid insurance	3,479	-	3,479
Total assets	\$ 26,226	\$ 299,554	\$ 325,780
Liabilities:			
Accounts payable	\$ 7,107	\$ -	\$ 7,107
Total liabilities	7,107	-	7,107
Members' equity:			
Fund balance (deficit)	19,119	299,554	318,673
Total members' equity	19,119	299,554	318,673
Total liabilities and members' equity	\$ 26,226	\$ 299,554	\$ 325,780

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

Homeowners Association of Homestead Farm II
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Statement of Revenues, Expenses, and Changes in Members' Equity

	Operating Fund	Replacement Fund	Total
Revenues:			
Member assessments	\$ 310,428	\$ 79,344	\$ 389,772
Interest income	155	158	313
Late fees and other income	5,466	-	5,466
Newsletter	3,652	-	3,652
Swim team payroll reimbursement	9,192	-	9,192
Total revenues	328,893	79,502	408,395
Expenses:			
Administrative	8,320	-	8,320
Grounds maintenance	59,748	-	59,748
Insurance	7,311	-	7,311
Major repairs and replacements	-	43,550	43,550
Payroll	14,091	-	14,091
Payroll taxes	1,244	-	1,244
Pool maintenance	80,208	-	80,208
Professional	9,301	-	9,301
Social	533	-	533
Tennis courts maintenance	1,667	-	1,667
Trash removal	79,201	-	79,201
Water	58,766	-	58,766
Total expenses	320,390	43,550	363,940
Excess (deficit) of revenues over expenses	8,503	35,952	44,455
Members' equity:			
Beginning of year	19,821	254,397	274,218
Interfund transfer	(9,205)	9,205	-
End of Year	\$ 19,119	\$ 299,554	\$ 318,673

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

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Statement of Cash Flows

	Operating Fund	Replacement Fund	Total
Operating activities:			
Excess (deficit) of revenues over expenses	\$ 8,503	\$ 35,952	\$ 44,455
Interfund transfer	(9,205)	9,205	-
Decrease (increase) in operating assets:			
Accounts receivable, net	(149)	-	(149)
Increase (decrease) in operating liabilities:			
Accounts payable	(2,329)	-	(2,329)
Cash provided by (used from) operating	(4,030)	45,157	41,127
Net change in cash and cash equivalents	(4,030)	45,157	41,127
Cash and cash equivalents:			
Beginning of year	26,615	254,397	281,012
End of year	\$ 22,585	\$ 299,554	\$ 322,139
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, 2020, the Association held a \$49,554 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 qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2020. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. 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, net

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. Accordingly, based on managements' judgment, the Association provided for an estimated uncollectible amount of \$1,500. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments.

(8) Swim Team Payroll Reimbursement

The Association pays swim coaches on behalf of the Homestead Farm II Barracudas Swim Team (the "Swim Team"), a separate entity. All funds paid are reimbursed by the Swim Team accordingly.

(9) Commitments

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

(10) Insurance Claim

On January 28, 2021, the Association filed an insurance claim to rebuild the entry wall. As a result of the claim, the Association received \$10,600 and completed the work associated with the claim. Insurance claim income is presented in the statement of revenues, expenses, and changes in members' equity net of the related major repairs and replacements.

(11) 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.

(12) Subsequent Events

Management has evaluated subsequent events through on February 9, 2021 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>
2021	\$ 11,750	\$ 20,600	\$ 38,000	\$ 70,350
2022	12,376	1,664	40,508	54,548
2023	16,548	2,217	387,970	406,735
2024	2,362	7,255	49,213	58,830
2025	13,804	1,696	33,341	48,841
2026	26,158	365	37,899	64,422
2027	15,816	1,265	47,449	64,530
2028	7,896	19,410	297,335	324,641
2029	107,638	23,745	36,541	167,924
2030	7,117	11,031	39,782	57,930
2031	114,867	9,770	34,786	159,423
2032	9,474	3,310	43,336	56,120
2033	36,023	4,003	34,422	74,448
2034	3,330	500	44,874	48,704
2035	2,251	520	27,620	30,391

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