

**HOMEOWNERS ASSOCIATION OF
HOMESTEAD FARM II**

FINANCIAL STATEMENTS

Year Ended December 31, 2005

(With Comparative Totals for 2004)

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

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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, 2005, 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, 2005, 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, 2004, 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 22, 2005.

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.



February 25, 2006

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II**BALANCE SHEET**

DECEMBER 31, 2005

(WITH COMPARATIVE TOTALS FOR 2004)

	2005			(For Comparative Purposes Only) 2004
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
ASSETS				
Cash and cash equivalents	\$ 59,666	\$ 120,730	\$ 180,396	\$ 371,281
Securities held to maturity		201,779	201,779	195,001
Accounts receivable-fence assessment	21,897		21,897	52,990
Accounts receivable-homeowners	100		100	8,690
Prepaid insurance	1,583		1,583	1,561
Prepaid income taxes	188		188	-
TOTAL ASSETS	\$ 83,434	\$ 322,509	\$ 405,943	\$ 629,523
LIABILITIES				
Accounts payable	31,940		31,940	253,577
Payroll taxes payable	876		876	-
Income taxes payable	-		-	160
TOTAL LIABILITIES	32,816	-	32,816	253,737
CONTINGENCIES				
FUND BALANCE				
Contributed capital	300		300	300
Fund balance(deficit)	50,318	322,509	372,827	375,486
TOTAL FUND BALANCE	50,618	322,509	373,127	375,786
TOTAL LIABILITIES AND FUND BALANCE	\$ 83,434	\$ 322,509	\$ 405,943	\$ 629,523

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, 2005

(WITH COMPARATIVE TOTALS FOR 2004)

	2005			(For Comparative Purposes Only) 2004
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
REVENUES				
Homeowner assessments	\$ 197,091	\$ 23,459	\$ 220,550	\$ 215,738
Swim team	15,989		15,989	13,158
Newsletter	5,515		5,515	5,768
Late fees and fines	2,460		2,460	546
Interest on investments	2,425	9,025	11,450	8,505
Transfer fees	2,400		2,400	3,000
Fence assessment	1,561		1,561	258,945
Pool rental	630		630	315
Other	298		298	1,779
TOTAL REVENUES	228,369	32,484	260,853	507,754
EXPENSES				
Wages	51,050		51,050	48,442
Grounds maintenance	39,095	30,870	69,965	50,571
Trash removal	36,602		36,602	35,368
Water and sewer	19,520		19,520	13,054
Pool maintenance	18,118	26,589	44,707	26,924
Accounting and legal	10,236		10,236	3,479
Tennis court maintenance	6,406		6,406	3,651
Printing and newsletter	6,386		6,386	8,317
Insurance	5,685		5,685	6,354
Payroll taxes	4,926		4,926	4,432
Fence expenses	2,775		2,775	257,110
Social events	2,547		2,547	2,400
Income taxes	1,223		1,223	1,786
Supplies and postage	671		671	681
Miscellaneous	465		465	528
Bank service charges	348		348	362
TOTAL EXPENSES	206,053	57,459	263,512	463,459
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	22,316	(24,975)	(2,659)	44,295
FUND BALANCES - BEGINNING OF YEAR	28,002	347,484	375,486	331,191
FUND BALANCES(DEFICIT) - END OF YEAR	\$ 50,318	\$ 322,509	\$ 372,827	\$ 375,486

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, 2005

(WITH COMPARATIVE TOTALS FOR 2004)

	2005			(For Comparative Purposes Only) 2004
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenues over expenses	\$ 22,316	\$ (24,975)	\$ (2,659)	\$ 44,295
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase)decrease in accts rec - special assessment	31,093		31,093	(52,990)
(Increase)decrease in accounts receivable	8,590		8,590	(7,190)
(Increase)decrease in prepaid insurance	(22)		(22)	636
Decrease in prepaid income taxes	(188)		(188)	-
Increase(decrease) in accounts payable	(221,637)		(221,637)	246,393
Increase(decrease) in payroll taxes payable	876		876	(163)
(Decrease) in income taxes payable	(160)		(160)	(952)
Net Cash Provided by Operating Activities	(159,132)	(24,975)	(184,107)	230,019
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase)decrease in securities held to maturity	-	(6,778)	(6,778)	(4,020)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(159,132)	(31,753)	(190,885)	225,999
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	218,798	152,483	371,281	145,282
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 59,666	\$ 120,730	\$ 180,396	\$ 371,281
SUPPLEMENTAL INFORMATION:				
Income taxes paid	\$ 1,786	\$ -	\$ 1,786	\$ 2,748
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, 2005****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, 2005****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, 2005 consisted of checking and savings account balances of \$59,666 in the operating fund and savings account balances of \$120,730 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, 2005 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 2005 were \$550. During 2005, the annual assessment for the Association was \$220,550 of which \$23,459 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, 2005

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 – Special Assessment

In 2004, after homeowner approval, the Board issued a Special Assessment to cover the cost of replacing the perimeter fencing in the neighborhood. The total project cost was estimated at \$258,945. Homeowners with perimeter fences were assessed a cost of \$970 each and homeowners on the interior were assessed a cost of \$570 each. Homeowners were given the option of paying the special assessment in one payment due October 12, 2004 or in equal installments due October 12, 2004, October 1, 2005 and October 1, 2006. The homeowners selecting the installment option will be charged interest on the outstanding balance at 8 percent per annum.

At December 31, 2005, the Association had received \$237,224 of the Special Assessment with the remaining balance due of \$21,897.

Note 6 – 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.

At December 31, 2005, the Association held investments in certificates of deposits which the Association intends to hold to maturity. Accordingly, these investments are reflected on the financial statements at their amortized cost of \$201,779.

Note 7 – Income Taxes

The Association elected to file its tax return as a regular corporation under Internal Revenue Code Section 277 for the year ended December 31, 2005. The Association filed its tax returns (federal and state) using the accrual basis of accounting.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2005****Note 8 – 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, 2005, assessments of \$23,459 were transferred to major repairs and replacement reserves. Additionally, interest income earned from the investments totaled \$11,450. The Association incurred reserve expenditures of \$57,459 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.

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 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, 2005.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
(UNAUDITED)**

DECEMBER 31, 2005

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 2019	\$ 470,640
Tennis	Work done in the years 2009, 2012, 2014, 2015, and 2017	119,523
Landscape	Work done each year thru 2019	364,259
TOTAL		<u><u>\$ 954,422</u></u>
Current replacement fund balance at December 31, 2005		<u><u>\$ 322,509</u></u>