

**HOMEOWNERS ASSOCIATION OF
HOMESTEAD FARM II**

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

Year Ended December 31, 2007

(With Comparative Totals for 2006)

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GRIFFIN CONSULTING, P.C.
CERTIFIED PUBLIC ACCOUNTANT
650 S. CHERRY STREET, STE. 602
DENVER, CO 80246
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, 2007, 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, 2007, 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, 2006 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 24, 2007.

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.

Denver, Colorado
March 3, 2008

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

BALANCE SHEET

DECEMBER 31, 2007

(WITH COMPARATIVE TOTALS FOR 2006)

	2007		(For Comparative Purposes Only) 2006	
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,276	\$ 174,783	\$ 181,059	\$ 160,328
Investments		221,633	221,633	211,167
Accounts receivable-homeowners	-		-	570
Accounts receivable-fence assessment	-		-	32
Accounts receivable-other	1,823		1,823	
Prepaid insurance	1,980		1,980	1,961
Prepaid income taxes	-		-	-
TOTAL ASSETS	\$ 10,079	\$ 396,416	\$ 406,495	\$ 374,058
<u>LIABILITIES</u>				
Accounts payable	7,781		7,781	765
Income taxes payable	818		818	1,251
TOTAL LIABILITIES	8,599	-	8,599	2,016
<u>CONTINGENCIES</u>	-	-	-	-
<u>FUND BALANCE</u>				
Contributed capital	300		300	300
Fund balance(deficit)	1,180	396,416	397,596	371,742
TOTAL FUND BALANCE	1,480	396,416	397,896	372,042
TOTAL LIABILITIES AND FUND BALANCE	\$ 10,079	\$ 396,416	\$ 406,495	\$ 374,058

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, 2007
(WITH COMPARATIVE TOTALS FOR 2006)

	2007		(For Comparative Purposes Only) 2006	
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
REVENUES				
Homeowner assessments	\$ 150,443	\$ 88,152	\$ 238,595	\$ 228,570
Swim team	17,107		17,107	17,670
Newsletter	5,976		5,976	5,060
Interest on investments	6,717	12,518	19,235	16,200
Late interest and other fees	1,209		1,209	1,918
Transfer fees	2,402		2,402	1,500
Pool rental	540		540	495
Other			-	787
TOTAL REVENUES	184,394	100,670	285,064	272,200
EXPENSES				
Wages	58,045		58,045	57,812
Grounds maintenance	42,409	19,525	61,934	93,203
Trash removal	43,686		43,686	38,339
Water and sewer	24,733		24,733	28,065
Pool maintenance	20,368	16,783	37,151	28,406
Insurance	6,916		6,916	6,370
Printing and newsletter	5,996		5,996	5,701
Payroll taxes	5,195		5,195	5,463
Accounting and legal	3,696		3,696	4,243
Social events	3,673		3,673	2,329
Income taxes	2,462		2,462	2,175
Supplies, postage, and other administrative	1,573		1,573	429
Bank service charges	409		409	374
Miscellaneous	114		114	306
Tennis court maintenance	1,782	1,845	3,627	70
TOTAL EXPENSES	221,057	38,153	259,210	273,285
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(36,663)	62,517	25,854	(1,085)
FUND BALANCES - BEGINNING OF YEAR	37,843	333,899	371,742	372,827
FUND BALANCES/(DEFICIT) - END OF YEAR	\$ 1,180	\$ 396,416	\$ 397,596	\$ 371,742

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, 2007

(WITH COMPARATIVE TOTALS FOR 2006)

	2007		2006	
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenues over expenses	\$ (36,663)	\$ 62,517	\$ 25,854	\$ (1,085)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase)/decrease in accts rec - special assessment	-		-	21,865
(Increase)/decrease in accounts receivable	602		602	(470)
(Increase)/decrease in accounts receivable - other	(1,823)		(1,823)	-
(Increase)/decrease in prepaid insurance	(19)		(19)	(378)
(Increase)/decrease in prepaid income tax	-		-	487
Increase(decrease) in accounts payable	7,016		7,016	(31,175)
Increase(decrease) in payroll taxes payable	-		-	(876)
Increase(decrease) in income taxes payable	(433)		(433)	952
Net Cash Provided by Operating Activities	(31,320)	62,517	31,197	(10,680)
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase)/decrease in investments	-	(10,466)	(10,466)	(9,388)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(31,320)	52,051	20,731	(20,068)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	37,596	122,732	160,328	180,396
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,276	\$ 174,783	\$ 181,059	\$ 160,328
SUPPLEMENTAL INFORMATION:				
Income taxes paid	\$ 2,895	\$ -	\$ 2,895	\$ 736
Interest paid	\$ -	\$ -	\$ -	\$ -

(For Comparative
Purposes Only)
2006

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

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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

HOMOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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, 2007 consisted of checking and savings account balances of \$6,276 in the operating fund and savings account balances of \$174,783 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, 2007 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 2006 were \$595. During 2007, the annual assessment for the Association was \$238,595 of which \$88,152 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 t eligible votes of each class of members voting in person or by

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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 were charged interest on the outstanding balance at 8 percent per annum.

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, 2007, 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 \$221,633.

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, 2007. The Association filed its tax returns (federal and state) using the accrual basis of accounting. The Association is taxed on its non-membership income which consisted mainly of interest on investments. The Association had a tax liability at December 31, 2007 of \$818 due for federal and state purposes.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

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, 2007, assessments of \$88,152 were transferred to major repairs and replacement reserves. Additionally, interest income earned from the investments totaled \$12,518. The Association incurred reserve expenditures of \$38,153 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, 2007.

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

DECEMBER 31, 2007

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 2022	\$ 595,662
Tennis	Work done in the years 2008, 2012, 2014, 2017, and 2020	63,489
Landscape	Work done each year thru 2022	406,317
TOTAL		\$ 1,065,468
Current replacement fund balance at December 31, 2007		\$ 396,416