

**HOMEOWNERS ASSOCIATION OF
HOMESTEAD FARM II**

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

Year Ended December 31, 2010

(With Comparative Totals for 2009)

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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, 2010, 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, 2010, 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, 2009 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 23, 2010.

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
February 27, 2011

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

BALANCE SHEET

DECEMBER 31, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	2010			(For Comparative Purposes Only) 2009
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,699	\$ 334,911	\$ 341,610	\$ 258,201
Investments	-	-	-	116,467
Accounts receivable-homeowners	2,094	-	2,094	2,249
Accounts receivable-other	-	-	-	1,120
Prepaid insurance	2,161	-	2,161	2,040
Prepaid income taxes	1,275	-	1,275	1,275
TOTAL ASSETS	\$ 12,229	\$ 334,911	\$ 347,140	\$ 381,352
<u>LIABILITIES</u>				
Accounts payable	5,231	-	5,231	4,785
Payroll tax payable	-	-	-	184
Income taxes payable	-	-	-	-
TOTAL LIABILITIES	5,231	-	5,231	4,969
<u>CONTINGENCIES</u>				
	-	-	-	-
<u>FUND BALANCE</u>				
Contributed capital	300	-	300	300
Fund balance(deficit)	6,698	334,911	341,609	376,083
TOTAL FUND BALANCE	6,998	334,911	341,909	376,383
TOTAL LIABILITIES AND FUND BALANCE	\$ 12,229	\$ 334,911	\$ 347,140	\$ 381,352

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, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	2010			(For Comparative Purposes Only) 2009
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
REVENUES				
Homeowner assessments	\$ 178,650	\$ 82,000	\$ 260,650	\$ 260,650
Swim team	14,383		14,383	13,612
Newsletter	4,404		4,404	5,102
Interest on investments	740	2,096	2,836	8,058
Late interest and other fees	1,254		1,254	1,191
Transfer fees	1,100		1,100	1,200
Pool rental	405		405	810
TOTAL REVENUES	200,936	84,096	285,032	290,623
EXPENSES				
Pool maintenance	69,627	97,449	167,076	33,444
Trash removal	52,300		52,300	48,603
Grounds maintenance	39,540	13,010	52,550	158,366
Wages	19,535		19,535	56,726
Printing and newsletter	6,922		6,922	6,353
Water and sewer	5,053		5,053	5,719
Insurance	4,853		4,853	5,182
Social events	3,282		3,282	2,903
Accounting and legal	2,200		2,200	3,320
Payroll taxes	1,628		1,628	4,122
Property tax	1,344		1,344	1,339
Tennis court maintenance	1,211		1,211	300
Bank service charges	840		840	502
Supplies, postage, and other administrative	712		712	771
TOTAL EXPENSES	209,047	110,459	319,506	327,650
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(8,111)	(26,363)	(34,474)	(37,027)
FUND BALANCES - BEGINNING OF YEAR	7,893	368,190	376,083	413,110
INTERFUND TRANSFERS	6,916	(6,916)	-	-
FUND BALANCES(DEFICIT) - END OF YEAR	\$ 6,698	\$ 334,911	\$ 341,609	\$ 376,083

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, 2010

(WITH COMPARATIVE TOTALS FOR 2009)

	2010			(For Comparative Purposes Only) 2009
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenues over expenses	\$ (8,111)	\$ (26,363)	\$ (34,474)	\$ 15,514
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase)decrease in accounts receivable	155		155	(299)
(Increase)decrease in accounts receivable - other	1,120		1,120	1,823
(Increase)decrease in prepaid insurance	(121)		(121)	(10)
(Increase)decrease in prepaid income tax	-		-	(1,275)
Increase(decrease) in accounts payable	446		446	(4,623)
Increase(decrease) in payroll taxes payable	(184)		(184)	434
Increase(decrease) in income taxes payable	-		-	(629)
Interfund transfers	6,916	(6,916)	-	
Net Cash Provided by Operating Activities	221	(33,279)	(33,058)	10,935
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase)decrease in investments	-	116,467	116,467	(9,969)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	221	83,188	83,409	966
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	6,478	251,723	258,201	181,059
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,699	\$ 334,911	\$ 341,610	\$ 182,025
SUPPLEMENTAL INFORMATION:				
Income taxes paid	\$ -	\$ -	\$ -	\$ -
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, 2010

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, 2010

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, 2010 consisted of checking and savings account balances of \$6,699 in the operating fund and savings account balances of \$334,911 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, 2010 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 2010 were \$650. During 2010, the annual assessment for the Association was \$260,650 of which \$82,000 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, 2010

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 – 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, 2009, 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 \$116,467. The Association redeemed those certificates in 2010.

Note 6 – Income Taxes

The Association elected to file its tax return as a homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2010. The Association filed its tax returns (federal and state) using the accrual basis of accounting. The Association is taxed on its non-exempt income which consisted mainly of interest on investments. The Association had no tax liability at December 31, 2010 for federal and state purposes.

Note 7 – 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, 2010, assessments of \$82,000 were transferred to major repairs and replacement reserves. Additionally, interest income earned from the investments totaled \$2,096. The Association incurred reserve expenditures of \$110,459 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.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

Note 7 – Future Major Repairs and Replacements (continued)

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 8 - 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, 2010.

HOMEOWNERS ASSOCIATION OF HOMESTEAD FARM II

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
(UNAUDITED)**

DECEMBER 31, 2010

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 2025	\$ 498,737
Tennis	Work done in the years 2012, 2017 2020	143,197
Landscape	Work done each year thru 2025	606,803
TOTAL		<u><u>\$ 1,248,737</u></u>
Current replacement fund balance at December 31, 2010		<u><u>\$ 334,911</u></u>