

Second Jefferson Green Homeowners Association



Financial Statements and Supplementary Information

For the Years Ended December 31, 2015, and 2014

Table of Contents

Independent Auditor's Report.....	1
Financial Statements	
Balance Sheet.....	3
Statement of Revenues, Expenses, and Changes in Fund Balances.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6
Supplementary Information	
Schedule of Operating Fund Revenues and Expenses – Budget and Actual.....	9
Supplementary Information on Future Major Repairs and Replacements (Unaudited).....	10



Independent Auditor's Report

To the Board of Directors of
Second Jefferson Green Homeowners Association

Report on the Financial Statements

I have audited the accompanying financial statements of Second Jefferson Green Homeowners Association (the "Association") which comprises the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended and the related notes to the financial statements. Information for the year ended December 31, 2014, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which I expressed an unmodified opinion in my report dated November 6, 2015.

Management's Responsibility for the Financial Statements

The Association's Board of Directors 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.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association'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 Association's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Second Jefferson Green Homeowners Association as of December 31, 2015, 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.

Other Matters

Supplementary Schedule of Operating Fund Revenues and Expenses – Budget and Actual

My audit was performed for the purpose of forming an opinion on the financial statements as a whole. The *Supplemental Schedule of Operating Fund Revenues and Expenses – Budget and Actual* is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information on Future Major Repairs and Replacements

Accounting principles generally accepted in the United States of America require that the information on 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Ryan E. Lee, CPA



Principal
Lee Public Accounting, LLC

November 29, 2016
Littleton, Colorado

Second Jefferson Green Homeowners Association
Balance Sheet
As of December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>2014 Total (comparative purposes only)</u>
Assets				
Cash	\$ 45,974	\$ 156,897	\$ 202,871	\$ 153,261
Assessments receivable	8,389	-	8,389	11,560
Prepaid insurance	-	-	-	26,849
Interfund balance	13,643	(13,643)	-	-
Total Assets	<u>\$ 68,006</u>	<u>\$ 143,254</u>	<u>\$ 211,260</u>	<u>\$ 191,670</u>
Liabilities and Fund Balances				
Accounts payable and accrued liabilities	\$ 8,377	\$ -	\$ 8,377	\$ 10,230
Assessments received in advance	18,326	-	18,326	10,268
Total Liabilities	26,703	-	26,703	20,498
Fund balances	41,303	143,254	184,557	171,172
Total Liabilities and Fund Balances	<u>\$ 68,006</u>	<u>\$ 143,254</u>	<u>\$ 211,260</u>	<u>\$ 191,670</u>

Second Jefferson Green Homeowners Association
Statement of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2015

	Operating Fund	Replacement Fund	Total	2014 Total (comparative purposes only)
Revenues				
Member assessments	\$ 352,464	\$ -	\$ 352,464	\$ 342,196
Contributions to the replacement fund	(36,500)	36,500	-	-
Bad debt recovery	15,481	-	15,481	-
Water rebate	6,469	-	6,469	12,447
Late fees and collection	8,006	-	8,006	3,499
Transfer fees	3,700	-	3,700	-
Other income	375	-	375	1,214
Interest	-	98	98	222
Total Revenues	\$ 349,995	\$ 36,598	\$ 386,593	\$ 359,578
Expenses				
Insurance	\$ 110,822	\$ -	\$ 110,822	\$ 71,832
Water and sewer	57,239	-	57,239	68,984
Landscaping and grounds	35,747	-	35,747	31,303
Snow removal	29,531	-	29,531	12,511
Management fees	20,160	-	20,160	19,152
Trash removal	15,013	-	15,013	14,008
Recreational facilities	10,632	-	10,632	19,317
Electricity	10,435	-	10,435	13,952
Irrigation maintenance	7,663	-	7,663	5,336
Light maintenance	5,526	-	5,526	3,418
Building maintenance and repairs	5,116	-	5,116	667
Office and administrative	3,972	-	3,972	4,023
Legal and professional fees	3,832	-	3,832	4,286
Other	2,027	-	2,027	-
Roof and gutter repairs	1,781	-	1,781	5,176
Tree and shrub care	1,698	-	1,698	4,140
Plumbing and sewer	360	1,595	1,955	24,117
Garage door repairs	231	-	231	733
Balconies	-	32,980	32,980	24,122
Parking lot and concrete	-	16,848	16,848	-
Bad debt	-	-	-	3,810
Reserve study	-	-	-	1,190
Total Expenses	321,785	51,423	373,208	332,077
Excess (Deficiency) of Revenues Over Expenses	\$ 28,210	\$ (14,825)	\$ 13,385	\$ 27,501
Beginning Fund Balance	13,093	158,079	171,172	143,671
Ending Fund Balance	\$ 41,303	\$ 143,254	\$ 184,557	\$ 171,172

Second Jefferson Green Homeowners Association
Statement of Cash Flows
For the Year Ended December 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>2014 Total (comparative purposes only)</u>
Cash Flows From Operating Activities				
Excess (Deficiency) of Revenues Over Expenses	\$ 28,210	\$ (14,825)	\$ 13,385	\$ 27,501
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Prior period adjustment			-	(39,109)
(Increase) decrease in:				
Assessments receivable	3,171		3,171	(2,257)
Prepaid insurance	26,849		26,849	(19,829)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(1,853)		(1,853)	2,793
Assessments received in advance	8,058		8,058	(239)
Net cash provided (used) by operating activities	<u>64,435</u>	<u>(14,825)</u>	<u>49,610</u>	<u>(31,140)</u>
Cash Flows From Financing Activities				
Interfund activities	(43,246)	43,246	-	-
Net cash (used) provided by financing activities	<u>(43,246)</u>	<u>43,246</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash	<u>\$ 21,189</u>	<u>\$ 28,421</u>	<u>\$ 49,610</u>	<u>\$ (31,140)</u>
Cash, beginning of year	24,785	128,476	153,261	184,401
Cash, end of year	<u>\$ 45,974</u>	<u>\$ 156,897</u>	<u>\$ 202,871</u>	<u>\$ 153,261</u>

Second Jefferson Green Homeowners Association
Notes to Financial Statements
For The Years Ended December 31, 2015, and 2014

Note 1 – Nature of the Association

Second Jefferson Green Homeowners Association (the “Association”) was organized as a non-profit corporation in the State of Colorado in 1973. The purpose of the Association is to provide for the operation, administration, use, and maintenance of the common property, and to promote the common benefit and enjoyment of the residents of the community. All members are subject to the *Declaration of Covenants, Conditions and Restrictions of Jefferson Green – Filing No. 2* (the “Declaration”). The Association’s membership consists of the Owners of 168 residential units located in Jefferson County, Colorado.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared using the accrual method of accounting.

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Common Area Property

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association’s financial statements because those properties are effectively owned by the individual unit Owners in common.

Cash

The Association considers all highly liquid investments with an original maturity of three months or less to be cash. The Association continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of December 31, 2015, and 2014, the Association had no cash equivalents.

Second Jefferson Green Homeowners Association
Notes to Financial Statements
For The Years Ended December 31, 2015, and 2014

Note 2 – Summary of Significant Accounting Policies (continued)

Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit Owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. For the year ended December 31, 2015, and 2014, monthly assessments to each unit were \$174.83 and \$169.74, respectively. According to the Association's Declaration, increases in assessments are limited to a maximum of 3% per annum without a vote of the membership.

Use of 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 – Income Taxes

The Association elects to file its federal tax return as a homeowners' association under Section 528 of the Internal Revenue Code. 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 non-exempt function income, which includes interest earned, is taxed at the federal and state levels at 30% and 4.63%, respectively. There was no net taxable income for the years ended December 31, 2015, and 2014.

The Association's tax filings may be subject to examination by various taxing authorities. The Association's federal income tax returns beginning with the 2013 tax year remain open to potential examination by the Internal Revenue Service; state income returns beginning with the 2012 tax year are open to potential examination.

Note 4 – Future Major Repairs and Replacements

The Association's Declaration requires funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

In 2014, the Association engaged a third party to update a study, originally performed in 2007, to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to the Declaration, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Second Jefferson Green Homeowners Association
Notes to Financial Statements
For The Years Ended December 31, 2015, and 2014

Note 4 – Future Major Repairs and Replacements (continued)

The study calculates an ideal balance of \$1,857,424 in the replacement fund as of January 1, 2014. The study recommends an initial special assessment contribution to the replacement fund of \$84,000, and an annual contribution of \$360,000 increased annually by 2.50%. For the years ended December 31, 2015, and 2014, replacement fund contributions were \$36,500 and \$66,000, respectively.

Note 5 – Contingencies

The Association may be a party to various legal actions throughout the year normally associated with homeowners' associations, including, but not limited to, the collection of delinquent assessments and covenant compliance matters, the aggregate of which, in management's opinion, would not be material to the future financial condition of the Association.

The Association has suffered damage to the building's roofs, gutters, and siding due to a hail storm which will likely require significant expenditures in the near future. As of the date of this report, the total cost of these expenditures has not yet been determined.

Note 6 – Subsequent Events

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 29, 2016, the date the financial statements were available to be issued.

Second Jefferson Green Homeowners Association
Schedule of Operating Fund Revenues and Expenses - Budget and Actual
For the Year Ended December 31, 2015

	<u>Actual</u>	<u>Budget</u> <u>(compiled)</u>	<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
Operating Fund Revenues			
Member assessments	\$ 352,464	\$ 352,464	\$ -
Contributions to the replacement fund	(36,500)	(70,000)	33,500
Bad debt recovery	15,481	-	15,481
Water rebate	6,469	8,000	(1,531)
Late fees and collection	8,006	2,000	6,006
Transfer fees	3,700	-	3,700
Other income	375	500	(125)
Total Operating Fund Revenues	\$ 349,995	\$ 292,964	\$ 57,031
Operating Fund Expenses			
Insurance	\$ 110,822	\$ 55,000	\$ (55,822)
Water and sewer	57,239	60,000	2,761
Landscaping and grounds	35,747	43,417	7,670
Snow removal	29,531	45,000	15,469
Management fees	20,160	20,160	-
Trash removal	15,013	17,000	1,987
Recreational facilities	10,632	10,400	(232)
Electricity	10,435	11,000	565
Irrigation maintenance	7,663	3,000	(4,663)
Light maintenance	5,526	5,500	(26)
Building maintenance and repairs	5,116	800	(4,316)
Office and administrative	3,972	3,035	(937)
Legal and professional fees	3,832	4,700	868
Other	2,027	-	(2,027)
Roof and gutter repairs	1,781	7,000	5,219
Tree and shrub care	1,698	4,252	2,554
Plumbing and sewer	360	2,000	1,640
Garage door repairs	231	700	469
Total Operating Fund Expenses	321,785	292,964	(28,821)
Excess of Revenues Over Expenses	\$ 28,210	\$ -	\$ 28,210

Second Jefferson Green Homeowners Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2015
Unaudited

In 2014, the Association engaged a third party to update a study, originally conducted in 2007, to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The information on the following pages was extracted from the study and presents significant information about the components of common property.

Funding Summary For Second Jefferson Green

Beginning Assumptions

Financial Information Source	Research With Client
# of units	168
Fiscal Year End	December 31, 2014
Monthly Dues from 2013 budget	\$27,686.00
Monthly Reserve Allocation from 2013 Budget	\$4,589.00
Projected Starting Reserve Balance (as of 1/1/2014)	\$175,858
Ideal Starting Reserve Balance (as of 1/1/2014)	\$1,857,424

Economic Factors

Past 20 year Average Inflation Rate (Based on CCI)	4.00%
Current Average Interest Rate	1.00%

Current Reserve Status

Current Balance as a % of Ideal Balance	9%
---	----

Recommendations for 2014 Fiscal Year

Monthly Reserve Allocation	\$30,000
Per Unit	\$178.57
Minimum Monthly Reserve Allocation	\$28,000
Per Unit	\$166.67
Primary Annual Increases	2.50%
# of Years	30
Special Assessment	\$84,000
Per Unit	\$500

Changes From Prior Year (2013 to 2014)

Increase/Decrease to Reserve Allocation	\$25,411
as Percentage	554%
Per Unit	\$151.26

Significant Components For Second Jefferson Green

ID	Asset Name	UL	RUL	Ave Curr Cost	Significance: (Curr Cost/UL)	
					As \$	As %
105	Comp Shingle Roof - Replace (1)	20	15	\$147,875	\$7,394	3.6623%
106	Comp Shingle Roof - Replace (2)	20	8	\$329,875	\$16,494	8.1697%
120	Gutters/Downspouts - Replace (1)	20	15	\$23,150	\$1,158	0.5733%
121	Gutters/Downspouts - Replace (2)	20	8	\$52,775	\$2,639	1.3070%
202	Garage Door Trim/Access Doors - Repaint	5	0	\$9,700	\$1,940	0.9609%
207	Iron Fencing - Repaint	4	0	\$4,525	\$1,131	0.5603%
209	Wood Fencing - Stain	3	0	\$8,825	\$2,942	1.4571%
302	Vinyl Siding - Replace (1)	24	9	\$455,000	\$18,958	9.3905%
303	Vinyl Siding - Replace (2)	24	10	\$455,000	\$18,958	9.3905%
304	Vinyl Siding - Replace (3)	24	11	\$455,000	\$18,958	9.3905%
401	Asphalt - Overlay	24	3	\$369,875	\$15,411	7.6336%
402	Asphalt - Seal Coat/crack fill	4	3	\$22,188	\$5,547	2.7475%
407	Drive Concrete - Replace	24	3	\$82,088	\$3,420	1.6942%
502	Garage Doors - Replace	20	2	\$74,550	\$3,728	1.8463%
503	Garage Access Doors - Replace	5	2	\$4,750	\$950	0.4706%
601	Concrete Sidewalks/Decks - Repair	4	0	\$37,275	\$9,319	4.6158%
607	Wood Deck - Replace	4	0	\$30,000	\$7,500	3.7149%
803	Mailboxes - Replace	15	0	\$19,525	\$1,302	0.6447%
809	Address Signs - Replace	12	7	\$2,400	\$200	0.0991%
1001	Wood Fencing - Replace (1)	20	10	\$17,863	\$893	0.4424%
1001	Wood Fencing - Replace (2)	20	16	\$30,900	\$1,545	0.7653%
1002	Ironwork Fencing - Replace	24	12	\$6,500	\$271	0.1341%
1008	Vinyl Fencing - Replace	30	7	\$29,925	\$998	0.4941%
1101	Pool - Resurface	12	8	\$16,488	\$1,374	0.6806%
1104	Coping Stone / Tile - Replace	12	8	\$8,075	\$673	0.3333%
1104	Pool Heater - Replace	12	1	\$3,250	\$271	0.1341%
1107	Pool Filter - Replace	15	6	\$1,850	\$123	0.0611%
1112	Pool Cover - Replace	10	3	\$3,700	\$370	0.1833%
1307	Benches - Replace	12	9	\$3,525	\$294	0.1455%
1413	Restroom - Remodel	17	0	\$11,000	\$647	0.3205%
1602	Exterior Wall Mount - Replace	18	6	\$18,050	\$1,003	0.4967%
1604	Pole Lights - Replace	20	0	\$17,250	\$863	0.4272%
1701	Irrigation System - Major Repairs	3	1	\$67,500	\$22,500	11.1448%
1703	Irrigation Controller - Replace	12	9	\$5,400	\$450	0.2229%
1801	Landscaping - Refurbish	3	1	\$67,500	\$22,500	11.1448%
2001	Sewer System - Major Repairs	3	1	\$27,500	\$9,167	4.5405%