

Second Jefferson Green Homeowners Association



Financial Statements and Supplementary Information

For the Year Ended December 31, 2020

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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, 2020, 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, 2019, 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 September 2, 2020.

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, 2020, 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

May 27, 2021
Littleton, Colorado

Second Jefferson Green Homeowners Association
Balance Sheet
As of December 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>2019 Total (comparative purposes only)</u>
Assets				
Cash	\$ 45,423	\$ 300,382	\$ 345,805	\$ 224,013
Assessments receivable	11,160	-	11,160	14,129
Interfund balance	98,287	(98,287)	-	-
Total Assets	<u>\$ 154,870</u>	<u>\$ 202,095</u>	<u>\$ 356,965</u>	<u>\$ 238,142</u>
Liabilities				
Accounts payable and accrued liabilities	\$ 7,072	\$ -	\$ 7,072	\$ 16,505
Assessments received in advance	26,293	-	26,293	29,791
Total Liabilities	33,365	-	33,365	46,296
Fund Balances				
Working capital contributions	-	16,912	16,912	7,247
Fund balances	121,505	185,183	306,688	184,599
Total Fund Balances	<u>121,505</u>	<u>202,095</u>	<u>323,600</u>	<u>191,846</u>
Total Liabilities and Fund Balances	<u>\$ 154,870</u>	<u>\$ 202,095</u>	<u>\$ 356,965</u>	<u>\$ 238,142</u>

Second Jefferson Green Homeowners Association
Statement of Revenues, Expenses, and Changes in Fund Balances
For the Year Ended December 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>2019 Total (comparative purposes only)</u>
Revenues				
Member assessments	\$ 594,110	\$ -	\$ 594,110	\$ 501,347
Contributions to the replacement fund	(111,599)	111,599	-	-
Late fees and collection	6,407	-	6,407	6,626
Other income	200	-	200	825
Interest	-	36	36	159
Maintenance billed to Owners	-	-	-	14,124
Total Revenues	<u>\$ 489,118</u>	<u>\$ 111,635</u>	<u>\$ 600,753</u>	<u>\$ 523,081</u>
Expenses				
Water and sewer	\$ 110,581	\$ -	\$ 110,581	\$ 95,051
Insurance	94,918	-	94,918	76,408
Landscaping and grounds	34,922	-	34,922	35,304
Management fees	24,192	-	24,192	24,192
Trash removal	23,104	-	23,104	23,436
Snow removal	22,950	-	22,950	61,974
Irrigation maintenance	22,385	-	22,385	12,652
Tree and shrub care	10,976	-	10,976	4,051
Recreational facilities	10,872	7,344	18,216	9,626
Electricity and gas	8,856	-	8,856	9,672
Building maintenance and repairs	6,980	-	6,980	1,425
Light maintenance	6,683	-	6,683	593
Office and administrative	4,763	-	4,763	5,043
Legal and professional fees	3,775	-	3,775	4,570
Roof and gutter repairs	3,165	-	3,165	12,605
Plumbing and sewer	2,517	9,002	11,519	47,274
Garage door repairs	2,004	-	2,004	2,192
Parking lot and concrete	-	47,761	47,761	30,788
Decks	-	20,914	20,914	962
Community mail boxes	-	-	-	2,669
Reserve study	-	-	-	1,000
Total Expenses	<u>393,643</u>	<u>85,021</u>	<u>478,664</u>	<u>461,487</u>
Excess of Revenues Over Expenses	<u>\$ 95,475</u>	<u>\$ 26,614</u>	<u>\$ 122,089</u>	<u>\$ 61,594</u>
Changes in Fund Balances				
Working capital contributions	-	9,665	9,665	7,247
Forgive prior year interfund balance	(101,918)	101,918	-	-
Beginning Fund Balance	<u>127,948</u>	<u>63,898</u>	<u>191,846</u>	<u>123,005</u>
Ending Fund Balance	<u>\$ 121,505</u>	<u>\$ 202,095</u>	<u>\$ 323,600</u>	<u>\$ 191,846</u>

Second Jefferson Green Homeowners Association
Statement of Cash Flows
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total	2019 Total (comparative purposes only)
Cash Flows From Operating Activities				
Excess of Revenues Over Expenses	\$ 95,475	\$ 26,614	\$ 122,089	\$ 61,594
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Assessments receivable	2,969		2,969	(160)
Increase (decrease) in:				
Accounts payable and accrued liabilities	(2,815)	(6,618)	(9,433)	(4,756)
Assessments received in advance	(3,498)		(3,498)	16,866
Net cash provided by operating activities	92,131	19,996	112,127	73,544
Cash Flows From Financing Activities				
Interfund activities	3,631	(3,631)	-	-
Working capital contributions	-	9,665	9,665	7,247
Forgive prior year interfund balance	(101,918)	101,918	-	-
Net cash (used) provided by financing activities	(98,287)	107,952	9,665	7,247
Net (decrease) increase in cash	\$ (6,156)	\$ 127,948	\$ 121,792	\$ 80,791
Cash, beginning of year	51,579	172,434	224,013	143,222
Cash, end of year	\$ 45,423	\$ 300,382	\$ 345,805	\$ 224,013

Second Jefferson Green Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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 *Amended and Restated Declaration of Covenants, Conditions and Restrictions for 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.

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, 2020, the Association had no cash equivalents.

Common Area Property

Real property and common areas conveyed to the Association by the Declarant are not recorded in the Association’s financial statements because the disposition of those properties is restricted by the Declaration. It is the duty of the Association to care for and maintain the common areas for the common benefit and enjoyment of its membership. Major repairs and replacements to common area property are recorded as expenditures in the Replacement Fund.

Working Capital Contributions

Upon the sale of any unit, the buyer shall pay to the Association at the time of the closing of such transfer, a payment of working capital equal to an amount not to exceed two-times the current monthly installment of the annual assessment.

Second Jefferson Green Homeowners Association
Notes to Financial Statements
For the Year Ended December 31, 2020

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 years ended December 31, 2020, and 2019, monthly assessments were charged at a uniform rate of \$299 and \$249, respectively.

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 income 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 4.55%, respectively. There was no net taxable income for the years ended December 31, 2020, and 2019.

The Association's tax filings may be subject to examination by various taxing authorities. The Association's federal income tax returns beginning with the 2018 tax year remain open to potential examination by the Internal Revenue Service; State income tax returns beginning with the 2017 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 2019, the Association engaged a third-party to update a study, originally performed in 2014, 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 Year Ended December 31, 2020

Note 4 – Future Major Repairs and Replacements (continued)

The study calculates an ideal balance of \$2,807,584 in the replacement fund as of January 1, 2020. The study recommends an initial special assessment contribution to the replacement fund of \$504,000, and an annual contribution of \$444,000 increased annually by 2.50%.

Note 5 – Related Parties

In addition to monthly management services, the Association's managing agent also provides certain maintenance services under affiliated entities. For the year ended December 31, 2019, total disbursements to these related party entities for maintenance services totaled \$36,029.

Note 6 – Concentration Risk

The Association maintains its cash balances in bank deposit accounts which, at times throughout the year, may exceed federally insured limits. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. As of December 31, 2020, uninsured cash balances totaled \$99,130.

Note 7 – 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 have a material adverse effect on the Association's financial position, results, or liquidity.

Note 8 – Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through May 27, 2021, 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, 2020

	<u>Actual</u>	<u>Budget</u> <u>(compiled)</u>	<u>Variance -</u> <u>Favorable</u> <u>(Unfavorable)</u>
Operating Fund Revenues			
Member assessments	\$ 594,110	\$ 594,384	\$ (274)
Contributions to the replacement fund	(111,599)	(152,382)	40,783
Late fees and collection	6,407	2,350	4,057
Other income	200	200	-
Interest	-	115	(115)
Total Operating Fund Revenues	\$ 489,118	\$ 444,667	\$ 44,451
Operating Fund Expenses			
Water and sewer	\$ 110,581	\$ 128,150	\$ 17,569
Insurance	94,918	93,642	(1,276)
Landscaping and grounds	34,922	39,100	4,178
Management fees	24,192	24,192	-
Trash removal	23,104	21,500	(1,604)
Snow removal	22,950	50,000	27,050
Irrigation maintenance	22,385	15,000	(7,385)
Tree and shrub care	10,976	10,000	(976)
Recreational facilities	10,872	19,680	8,808
Electricity and gas	8,856	10,538	1,682
Building maintenance and repairs	6,980	5,160	(1,820)
Light maintenance	6,683	4,200	(2,483)
Office and administrative	4,763	5,130	367
Legal and professional fees	3,775	4,075	300
Roof and gutter repairs	3,165	10,500	7,335
Plumbing and sewer	2,517	2,000	(517)
Garage door repairs	2,004	1,800	(204)
Total Operating Fund Expenses	393,643	444,667	51,024
Excess of Revenues Over Expenses	\$ 95,475	\$ -	\$ 95,475

Second Jefferson Green Homeowners Association
Supplementary Information on Future Major Repairs and Replacements
December 31, 2020
Unaudited

In 2019, the Association engaged a third-party to update a study, originally conducted in 2014, 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, 2020
Monthly Dues from 2019 budget	\$41,832.00
Monthly Reserve Allocation from 2019 Budget	\$9,998.00
Projected Starting Reserve Balance (as of 1/1/2020)	\$216,272
Reserve Balance: Average Per Unit	\$1,287
Ideal Starting Reserve Balance (as of 1/1/2020)	\$2,807,584
Ideal Reserve Balance: Average Per Unit	\$16,712

Economic Factors

Past 20 year Average Inflation Rate (Based on CCI)	3.75%
Current Average Interest Rate	1.00%

Current Reserve Status

Current Balance as a % of Ideal Balance	8%
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Recommendations for 2020 Fiscal Year

Monthly Reserve Allocation	\$39,000
Per Unit	\$232.14
Minimum Monthly Reserve Allocation	\$37,000
Per Unit	\$220.24
Primary Annual Increases	2.50%
# of Years	20
Secondary Annual Increases	3.50%
# of Years	10
Special Assessment (2020 and 2021)	\$504,000
Per Unit	\$3,000

Changes From Prior Year (2019 to 2020)

Increase/Decrease to Reserve Allocation	\$29,002
as Percentage	290%
Average Per Unit	\$172.63

Significant Components For Second Jefferson Green

ID	Asset Name	Useful Lives	Remaining Useful Lives	Ave Curr Cost	Significance: (Curr Cost/UL)	
					As \$	As %
105	Comp Shingle Roof - Replace	20	16	\$707,750	\$35,388	11.7938%
120	Gutters/Downspouts - Replace (1)	20	9	\$30,875	\$1,544	0.5145%
121	Gutters/Downspouts - Replace (2)	20	2	\$69,188	\$3,459	1.1529%
202	Garage Door Trim/Access Doors - Repaint	5	0	\$17,650	\$3,530	1.1765%
207	Iron Fencing - Repaint	4	0	\$6,125	\$1,531	0.5103%
207	Pool Fence - Repaint	4	2	\$1,850	\$463	0.1541%
209	Wood Fencing - Stain	3	0	\$14,275	\$4,758	1.5858%
302	Vinyl Siding - Replace (1)	24	3	\$533,750	\$22,240	7.4119%
303	Vinyl Siding - Replace (2)	24	4	\$533,750	\$22,240	7.4119%
304	Vinyl Siding - Replace (3)	24	5	\$533,750	\$22,240	7.4119%
401	Asphalt - Overlay	24	1	\$403,575	\$16,816	5.6043%
402	Asphalt - Seal Coat/crack fill	4	3	\$24,888	\$6,222	2.0736%
407	Drive Concrete - Replace	24	1	\$92,500	\$3,854	1.2845%
502	Garage Doors - Replace	20	0	\$87,150	\$4,358	1.4523%
503	Garage Access Doors - Replace	5	0	\$5,625	\$1,125	0.3749%
601	Concrete Sidewalks/Decks - Repair	4	0	\$51,450	\$12,863	4.2868%
607	Wood Deck - Replace	30	28	\$57,138	\$1,905	0.6348%
803	Mailboxes - Replace	18	16	\$15,250	\$847	0.2824%
809	Address Signs - Replace	12	1	\$3,600	\$300	0.1000%
1001	Wood Fencing - Replace (1)	20	4	\$28,875	\$1,444	0.4812%
1001	Wood Fencing - Replace (2)	20	10	\$34,200	\$1,710	0.5699%
1002	Ironwork Fencing - Replace	28	26	\$10,625	\$379	0.1265%
1005	Brick Columns - Major Repairs	8	6	\$3,250	\$406	0.1354%
1008	Vinyl Fencing - Replace	30	2	\$29,925	\$998	0.3324%
1101	Pool - Resurface	12	2	\$17,813	\$1,484	0.4947%
1104	Coping Stone/Tile - Replace	12	2	\$12,750	\$1,063	0.3541%
1105	Pool Heater - Replace	12	0	\$5,875	\$490	0.1632%
1107	Pool Filter - Replace	17	0	\$2,200	\$129	0.0431%
1112	Pool Cover - Replace	10	7	\$4,075	\$408	0.1358%
1307	Benches - Replace	12	3	\$3,525	\$294	0.0979%
1413	Restroom - Remodel	17	0	\$11,000	\$647	0.2156%
1602	Exterior Wall Mount - Replace	18	0	\$51,250	\$2,847	0.9489%
1604	Pole Lights - Replace	24	0	\$30,750	\$1,281	0.4270%
1701	Irrigation System - Major Repairs	3	0	\$165,000	\$55,000	18.3302%
1703	Irrigation Controller - Replace	12	0	\$19,500	\$1,625	0.5416%
1801	Landscaping - Refurbish	3	1	\$70,000	\$23,333	7.7765%
1804	Tree - Replacement/Major Maintenance	4	0	\$100,000	\$25,000	8.3319%
2001	Sewer System - Major Repairs	3	0	\$47,500	\$15,833	5.2769%