

EFS & ASSOCIATES, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

6698 SOUTH IRIS STREET, #621908 • LITTLETON, COLORADO 80123-3180
PHONE (303) 798-6406

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
COLORADO SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
COMMUNITY ASSOCIATIONS INSTITUTE

February 22, 2021

Board of Directors
Homestead in the Willows Homeowners Association, Inc.

In planning and performing our audit of the financial statements of Homestead in the Willows Homeowners Association, Inc. as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Homestead in the Willows Homeowners Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we also became aware of the following deficiencies in internal control, other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency:

Bank Accounts

The Association maintains its cash balances at various financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are approximately \$249,997 at December 31, 2020.

This communication is intended solely for the information and use of the Board of Directors and management of Homestead in the Willows Homeowners Association, Inc., and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

EFS & Associates, CPA, P.C.
EFS & Associates, CPA, P.C.

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.

TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditor's Report</u>	1 - 2
<u>Financial Statements</u>	
Balance Sheet	3
Statement of Revenues and Expenses And Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9
<u>Supplementary Information</u>	
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	10

EFS & ASSOCIATES, CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

6698 SOUTH IRIS STREET, #621908 • LITTLETON, COLORADO 80123-3180
PHONE (303) 798-6406

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
COLORADO SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
COMMUNITY ASSOCIATIONS INSTITUTE

February 22, 2021

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Homestead in the Willows Homeowners Association, Inc.

We have audited the accompanying financial statements of Homestead in the Willows Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Homestead in the Willows Homeowners Association, Inc. 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information about future major repairs and replacements on page ten 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

EJD + Associates CPA, P.C.

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Swim Team Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 99,955	\$ 701,720	\$ 24,893	\$ 826,568
Assessments Receivable	1,750			1,750
Prepaid Expenses	16,855			16,855
Swim Team Equipment	\$ 13,744			
Less Accumulated Depreciation	(12,965)			
Net Equipment			779	779
<u>Total Assets</u>	<u>\$ 118,560</u>	<u>\$ 701,720</u>	<u>25,672</u>	<u>\$ 845,952</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 2,164	\$	\$	\$ 2,164
Assessments Received in Advance	1,150			1,150
Deferred Comcast Income	3,789			3,789
<u>Total Liabilities</u>	7,103			7,103
 <u>Fund Balances</u>	 <u>111,457</u>	 <u>701,720</u>	 <u>25,672</u>	 <u>838,849</u>
 <u>Total Liabilities and Fund Balances</u>	 <u>\$ 118,560</u>	 <u>\$ 701,720</u>	 <u>\$ 25,672</u>	 <u>\$ 845,952</u>

See Accompanying Notes to Financial Statements

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Replacement Fund	Swim Team Fund	Total
<u>REVENUES:</u>				
Owner Assessments	\$ 817,115	\$ 247,599	\$	\$ 1,064,714
Associate Membership	550			550
Newsletter Advertising Income	14,700			14,700
Comcast Easement Income	15,715			15,715
Interest Income	46	3,466	9	3,521
Pool Rental	13,828			13,828
Late Fees and Other Income	23,456			23,456
Events and Registration Income			18,400	18,400
Snack Bar and Merchandise Sales			90	90
Insurance Proceeds		35,206		35,206
<u>Total Revenues</u>	<u>885,410</u>	<u>286,271</u>	<u>18,499</u>	<u>1,190,180</u>
<u>EXPENSES:</u>				
Repairs and Maintenance:				
Pool Repair and Operations	180,707	93,087		273,794
Grounds and Landscape	113,414	11,056		124,470
Trash Removal	107,940			107,940
Fencing	48,713			48,713
Tree Replacement and Maintenance	39,145			39,145
Other Repairs and Maintenance	9,652			9,652
Tennis Court Maintenance and Repairs	9,622	7,583		17,205
Walkways Repairs and Maintenance	7,405			7,405
Business Office Expense		58,237		58,237
Utilities:				
Water and Sewer	130,677			130,677
Gas and Electricity	16,196			16,196
General Administrative:				
Payroll and Related Expenses	90,337			90,337
Insurance	48,760			48,760
Office Supplies and Expense	13,543	167		13,710
Newsletter Expenses	13,264			13,264
Legal and Accounting	9,710			9,710
Swim Team Expenses			25,194	25,194
Depreciation			914	914
<u>Total Expenses</u>	<u>839,085</u>	<u>170,130</u>	<u>26,108</u>	<u>1,035,323</u>
<u>Revenues Over (Under) Expenses</u>	46,325	116,141	(7,609)	154,857
Fund Balances, December 31, 2019	<u>65,132</u>	<u>585,579</u>	<u>33,281</u>	<u>683,992</u>
<u>Fund Balances, December 31, 2020</u>	<u>\$ 111,457</u>	<u>\$ 701,720</u>	<u>\$ 25,672</u>	<u>\$ 838,849</u>

See Accompanying Notes to Financial Statements

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Replacement Fund	Swim Team Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Net Revenues Over (Under) Expenses	\$ 46,325	\$ 116,141	(\$ 7,609)	\$ 154,857
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation			914	914
Changes in Assets and Liabilities:				
Decrease in Assessments Receivable	4,934			4,934
Increase in Prepaid Expenses	(968)			(968)
Increase (Decrease) in Accounts Payable	357	(47,876)		(47,519)
Increase in Assessments Received in Advance	1,150			1,150
Decrease in Wages Payable	(23)			(23)
Decrease in Income Tax Payable	(73)			(73)
Decrease in Deferred Comcast Income	(15,715)			(15,715)
<u>Net Cash Provided (Used) By Operating Activities</u>	35,987	68,265	(6,695)	97,557
<u>Cash and Cash Equivalents at Beginning of Year</u>	63,968	633,455	31,588	729,011
<u>Cash and Cash Equivalents at December 31, 2020</u>	\$ 99,955	\$ 701,720	\$ 24,893	\$ 826,568

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income Taxes	\$73
Interest Expense	-0-

Disclosure of Accounting Policy:

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

See Accompanying Notes to Financial Statements

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 1: ORGANIZATION

Homestead in the Willows Homeowners Association, Inc., a homeowners association consisting of 898 single family detached homes and 71 townhomes, was incorporated in 1974 as a Colorado non-profit corporation to hold, develop and maintain real estate and personal property (common areas) owned jointly by the homeowners of the development.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Swim Team Fund - This fund is used to record the financial activity of the swim team.

MEMBER 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. Any excess assessments at year end are retained by the Association for use in the succeeding year.

INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2020, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates.

As of December 31, 2020, the tax years that remain subject to examination by taxing authorities begin with December 31, 2017 for federal tax purposes and December 31, 2016 for state tax purposes.

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

IMPROVEMENTS AND EQUIPMENT

Land improvements conveyed by the Declarant of the Association were presented in the financial statements at the estimated market value at the time of the donation. Land improvements had been depreciated using the straight line method over 30 years. Since the land improvements and building are more than 30 years old and are owned by the individual unit owners in common and not by the Association, the assets have been removed from the Association's balance sheet. Swim team equipment is recorded at cost and is depreciated using the straight line method over 5-7 years. Other real property, amenities, and common areas acquired by the Developer and related improvements to such property are not recorded on the Association's financial statements, because those properties are owned by the individual unit owners in common and not by the Association.

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 period. Actual results could differ from those estimates.

NOTE 3: FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance, ASC 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). ASC 606 requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an Association expects to be entitled in exchange for those goods or services.

The Association adopted this new guidance effective for annual reporting periods beginning January 1, 2019.

The Association has adopted the requirements of the new guidance in its Operating Fund. Assessment revenues are recognized as the related performance obligations are satisfied and transaction amounts expected to be collected. Net membership revenues recognized on the Statement of Revenues and Expenses is adjusted to the amount expected to be collected from homeowners.

Assessments receivable as of December 31, 2020 of \$1,750, as shown on the Balance Sheet, is expected to be collected. There has been no change to beginning fund balance as a result of this accounting guidance.

The Association has determined that the performance obligations as defined in ASC 606 do not describe the activity of the Replacement Fund. Therefore, the guidance described in ASC 606 has not been applied to the Replacement Fund.

ASC 606 will be applied to deferred special assessments and deferred insurance proceeds, should those events occur in the future.

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$701,720 at December 31, 2020, are held in separate accounts and are generally not available for operating purposes.

The Association engaged Borne Engineering who conducted a study dated in August 2017 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 future 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 member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

In 2019 the Association's Board observed that the perimeter fence was not included in the study. It is estimated that the fence may need to be replaced in the next eight to ten years at a cost of \$1.7 million. The Association has increased the Replacement Fund contribution for 2020 by \$100,000 to be specifically earmarked for the fence replacement

NOTE 5: SWIM TEAM

The Swim Team is a separate committee of the Association and records its financial activity separately. The Team's financial information is included in the 2020 financial statements of the Association.

NOTE 6: COMCAST EASEMENT AGREEMENT

The Association entered into a ten year easement agreement with Comcast in 2011, and received a total of \$157,150, which will be recognized as revenue over the ten year period. The amount recognized as revenue in 2020 was \$15,715. The remaining balance of \$3,789 is recorded on the December 31, 2020 balance sheet as Deferred Comcast Income.

NOTE 7: UNINSURED CASH BALANCES

The Association maintains its cash balances at various financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. Uninsured balances are approximately \$249,997 at December 31, 2020.

NOTE 8: MEMORIAL PLAYGROUND

In 2014, a family in the Association contributed funds to the Association to build a playground in memory of their daughter. The funds were disbursed in 2014 and the playground completed. It is the Association's responsibility to maintain the playground going forward.

HOMESTEAD IN THE WILLOWS HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

NOTE 9: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 22, 2021, the date the financial statements were available to be issued.

The World Health Organization declared the novel coronavirus (Covid-19) outbreak a pandemic in March 2020. As of the date the financial statements were available to be issued, the uncertainty of the impact that Covid-19 may have on the Association's financial position, operations and cash flows was not readily determinable. The Association does have the ability to retain legal counsel and place liens on delinquent homeowner accounts. These financial statements do not include any adjustments related to this uncertainty.