

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Southpark Homeowners Association Number 2, Inc.

I have audited the accompanying financial statements of Southpark Homeowners Association Number 2, which comprise the balance sheet as of December 31, 2015, 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 the 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 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 the 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 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, 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.

Southpark Homeowners Association Number 2, Inc.
Independent Auditor's Report (continued)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southpark Homeowners Association Number 2, Inc. 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on common property 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 the 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.



Michele M. Giometti, CPA
Lakewood, Colorado
August 27, 2016

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
BALANCE SHEET
DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note 3)	\$ 56,244	\$ 165,131	\$ 221,375
Cash on deposit - water escrow	4,529		4,529
Certificates of deposit (Note 7)		315,543	315,543
Held to maturity securities (Note 7)		120,749	120,749
Accounts receivable, net of allowance for doubtful accounts of \$1,000 (Note 4)	5,387		5,387
Prepaid expenses	5,533		5,533
Accrued interest receivable		740	740
Interfund receivable		57,168	57,168
Furniture and equipment, net of accumulated depreciation of \$24,044 (Note 3)	0		0
<u>TOTAL ASSETS</u>	<u>\$ 71,693</u>	<u>\$ 659,331</u>	<u>\$ 731,024</u>
 <u>LIABILITIES</u>			
Accounts payable	\$ 27,185	\$ 0	\$ 27,185
Prepaid assessments	15,215		15,215
Taxes payable (Note 6)	752		752
Deferred revenue (Note 8)		71,240	71,240
Interfund payable	57,168		57,168
Total liabilities	100,320	71,240	171,560
 <u>FUND BALANCES</u>			
Restricted	4,513	588,091	592,604
Unrestricted (deficit)	(33,140)		(33,140)
Total fund balance (deficit)	<u>(28,627)</u>	<u>588,091</u>	<u>559,463</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 71,693</u>	<u>\$ 659,331</u>	<u>\$ 731,024</u>

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Replacement Fund	Total
<u>REVENUES</u>			
Member assessments (Note 4)	\$ 660,888	\$ 154,536	\$ 815,424
Water rebate		20,377	20,377
Comcast service agreement (Note 8)		12,000	12,000
Interest	5	8,167	8,172
Late fees and other member charges	7,122		7,122
Clubhouse rental	1,245		1,245
Total Revenues	<u>669,260</u>	<u>195,080</u>	<u>864,340</u>
<u>EXPENSES</u>			
Grounds maintenance	185,312		185,312
Water and sewer	175,686		175,686
Snow removal	86,673		86,673
Trash removal	57,441		57,441
Pool and clubhouse	52,271		52,271
Management fees	35,580		35,580
Bookkeeping expense	21,372		21,372
Insurance	11,133		11,133
Gas and electric	8,825		8,825
Security services	7,204		7,204
Community activities	7,066		7,066
Administrative	6,858	30	6,888
Income tax expense (Note 6)	5,398		5,398
Lighting maintenance	3,761		3,761
Audit and tax preparation	2,322		2,322
Bad debt	2,168		2,168
Legal and collection - net	503		503
Replacement fund expenses:			
Grounds and landscape improvements		95,243	95,243
Asphalt and concrete		67,755	67,755
Trees and mulch beds		59,294	59,294
Pool and clubhouse		9,785	9,785
Lighting		8,295	8,295
Premium amortization		4,289	4,289
Reserve study		3,824	3,824
Drainage		3,155	3,155
Loss on disposal of investments		261	261
Total Expenses	<u>669,573</u>	<u>251,931</u>	<u>921,504</u>
Excess of Revenues over Expenses or (Expenses over Revenues)	(313)	(56,851)	(57,164)
Beginning Fund Balances (Deficit)	<u>(32,827)</u>	<u>644,942</u>	<u>612,115</u>
Ending Fund Balances	<u>\$ (33,140)</u>	<u>\$ 588,091</u>	<u>\$ 554,951</u>

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess / (Deficit) of revenues over expenses	\$ (313)	\$ (56,851)	\$ (57,164)
(Increase) decrease in:			
Accounts receivable	785		785
Prepaid expenses	(1,941)		(1,941)
Increase (decrease) in:			
Accounts payable	(3,927)		(3,927)
Prepaid assessments	(25,881)		(25,881)
Income tax payable	(4,987)		(4,987)
Deferred revenue - Comcast agreement		(5,480)	(5,480)
Net Cash Provided (Used) by Operating Activities	<u>(36,264)</u>	<u>(62,331)</u>	<u>(98,595)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Maturity of certificates of deposit		400,000	400,000
Purchase of certificates of deposit		(280,000)	(280,000)
Maturity of held to maturity securities		4,675	4,675
Purchase of held to maturity securities		(111,683)	(111,683)
Return of principal		69,979	69,979
Premium amortization		3,004	3,004
Loss on disposal of investments		323	323
Accrued interest receivable		882	882
Net Cash Provided (Used) by Investing Activities	<u>0</u>	<u>87,180</u>	<u>87,180</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Interfund payable/receivable	28,739	(28,739)	0
Net Cash Provided (Used) by Financing Activities	<u>28,739</u>	<u>(28,739)</u>	<u>0</u>
Net increase (decrease) in cash	(7,525)	(3,890)	(11,415)
Cash at beginning of year	68,298	169,021	237,319
Cash at end of year	<u>\$ 60,773</u>	<u>\$ 165,131</u>	<u>\$ 225,904</u>
Supplemental information of cash flow information:			
Cash paid during the year for:			
Interest expense	\$ 0	\$ 0	\$ 0
Income taxes	\$ 6,300	\$ 0	\$ 6,300

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

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. NATURE OF ORGANIZATION

Southpark Homeowners Association Number 2, Inc. (the Association), a nonprofit corporation organized under the laws of Colorado on July 20, 1982, was formed to manage, maintain and preserve the common area property on behalf of the members of the Association. The development consists of 548 homes, and is located in Arapahoe County, Colorado. The Association is responsible for the maintenance and preservation of the common area, which includes a pool and clubhouse, grounds and improvements, and fencing. It is also responsible for providing snow and trash removal, and insurance for the common areas.

NOTE 2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 27, 2016.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING. The Association uses the accrual method of accounting for both financial statement and income tax return purposes.

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 AND CASH EQUIVALENTS. The association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

INTEREST INCOME. Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

RECOGNITION OF ASSETS AND DEPRECIATION POLICY. Real and personal common property acquired by the original unit owners from the developer, as well as replacements and improvements thereto, is not recognized on the Association's financial statements because it is commonly owned by individual owners and its disposition by the Association's Board is restricted. Replacements and improvements to common property are not recognized as assets because their disposition is restricted. At December 31, 2015, property not capitalized consists of sidewalks, access roads, and greenbelts.

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Capitalized common property is depreciated over an estimated 7-year useful life using an accelerated method of depreciation.

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 4. OWNERS' 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. Owner's assessments are determined by an annual budget approved by the board to meet operating costs and contribute to the replacement fund. 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. Any excess assessments at year end are retained by the Association for use in future years.

For the year ended December 31, 2015, monthly assessments to owners were \$124.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregated \$601,423 at December 31, 2015, are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Association's management conducted a study in October, 2015, to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were based on the then current replacement costs, including adjustment for future inflation and interest earned on investments. 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.

During 2015, \$154,536 was transferred to reserves.

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 6. FEDERAL AND STATE CORPORATE INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2015. Under that Section, the Association is not taxed on income and expense related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 4.63% by the State of Colorado. The Association had taxable income for the year ended December 31, 2015 resulting in Federal taxes of \$4,646 and state taxes of \$752.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for 2012, 2013, and 2014 remain open to examination. In evaluating the Association's tax provisions and accrual, the Association believes that its estimates are appropriate based on current facts and circumstances.

NOTE 7. CERTIFICATES OF DEPOSIT AND INVESTMENTS

The Association has investment accounts with RBC Wealth Management. The investments are carried at the lower of cost or market value. As of December 31, 2015, the Association had the following certificates of deposit and investments with a maturity date greater than three months:

<u>Description</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>	<u>Cost</u>
GE Capital Bank Retail	0.650%	4/4/16	\$ 50,000
JP Morgan Chase Bank		6/29/16	59,060
Sallie Mae Bank Salt Lake City	1.000%	10/11/16	50,000
Union Bank	0.000%	12/27/16	50,076
Ally Bank Midvale	0.850%	5/1/17	50,000
Wells Fargo Bank	3.000%	11/20/28	56,407
Freddie Mac CMO/Series 4073	3.000%	7/15/42	17,006
Fannie Mae CMO/Series 2012-70	3.000%	7/25/42	20,006
FNMA/Series 2013-73 CL UA	3.000%	3/25/43	20,136
FHLM/Series 2013-67 CL NHD	3.000%	7/25/43	11,971
GNMA REMIC Trust	3.500%	2/16/44	5,658
GNMA/Series 2015-53 CL KD	2.500%	4/16/45	23,737
FNMA Remic Trust 2015-37 HA	3.000%	6/25/45	22,235
Total			<u>\$ 436,291</u>

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8. DEFERRED REVENUE

The Association entered into a 15 year easement agreement with Comcast in December 2013. Comcast paid the Association \$82,200 for the right to provide broadband communications services to the premises, including, but not limited to multi-channel video, internet and voice services. In addition, Comcast agrees to pay a percentage of the multi-channel service revenue, interest service revenue, and CDV service revenue, calculated on a quarterly basis.

The \$82,200 lump sum agreement will be amortized over the 15-year term at \$5,480 per year, and is taxable income. Deferred revenue is composed of the following:

Lump sum payment received in January 2014:	\$82,200
2014 Amortization	(5,480)
2015 Amortization	<u>(5,480)</u>
Deferred revenue as of December 31, 2014	<u>71,240</u>

NOTE 9. SUBSEQUENT EVENT

In July, 2015, the Association filed a claim against the City of Englewood, which owns and maintains McLellan Reservoir. The reservoir is adjacent to the Association. The claim asserts that water from the reservoir is leaking into the soils beyond the reservoir, including into the Association's common property. The claim also asserts the leaking water has caused damage to the Association, including, but not limited to, the supporting and surrounding soils, foundations, streets, sidewalks, landscaping and other elements of the Association's common property. Part of the purpose of the claim is to obtain an order requiring the owners of the reservoir to stop the water migration to the Association's property.

At the time of this report, the outcome of the claim is not known.

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2015
Unaudited

The Association's Board of Directors conducted a study in October 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current replacement costs, with adjustments for future inflation of 3.0% and interest earned, net of tax, of 0.25%.

The following information is based on the study and presents significant information about the components of common property. The following information has not been updated for work in process or completed. See the reserve study for additional detail regarding the timing and frequency of the repairs and replacements for the various elements of the study.

<u>Components</u>	<u>Useful Life</u> (Years)	<u>Remaining</u> <u>Useful Life</u> (Years)	<u>Estimated</u> <u>Future Cost</u>
Driveways: crackfill asphalt	1	0	\$ 5,000
Driveways: overlay phases 1-9	20	0-18	645,215
Concrete walkways	1	1	8,240
Concrete garage aprons	6	7	4,959
Concrete pool deck	10	5	13,410
Concrete pan	5	6	56,956
Curb and gutter	5	5	10,364
Entrance monument	15	4	3,939
MSE block walls	1	0	5,000
Railings: paint	6	5	4,521
Railings: replace	10	10	26,206
Area lights	1	0	7,500
Fences: replace sections	25	1-5	171,902
Metal fencing: paint	5	6	2,000
Fencing: replace	25	14	54,725
Metal fencing: replace	24	1	15,527
Landscaping: replace components	1	0	7,500
Landscaping: replace trees and plants	1	1-7	376,674
Landscaping: replenish mulch beds	5	0-4	89,815
Landscaping: trim cottonwood trees	5	2	34,213
Landscaping: trim trees	4	0-3	89,954
Site and building grading and drainage	8	6	1,791
Brick veneer	31	3	5,354
Windows and doors	8	10	17,135
Siding and trim: prep and paint	5	4	3,939
Siding and trim: replace	8	15	18,696
Asphalt shingles	25	10	7,526
Gutters and downspouts	25	10	2,822
Pool furniture	12	12	13,079
Tennis courts: replace nets and hardware	6	1	2,060
Tennis courts: resurface	7	2	19,170
Playground equipment: replace	20	17	38,015
Playground equipment: replenish ground cover	3	2	5,304
Wall coverings	5	2	7,771

SOUTHPARK HOMEOWNERS ASSOCIATION NUMBER 2, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
 REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2015
 Unaudited

<u>Components (continued)</u>	<u>Useful Life</u> <u>(Years)</u>	<u>Remaining</u> <u>Useful Life</u> <u>(Years)</u>	<u>Estimated</u> <u>Future Cost</u>
Flooring: coat concrete	12	3	2,098
Flooring: grout tile joints	7	3	1,093
Flooring: replace carpet	8	0	9,120
Clubhouse: remodel	13	5	2,319
Kitchen: replace appliances	5	5	2,319
Restrooms: refurbish	4	8	10,134
Wading pool boiler	17	12	7,129
Furnace	20	14	6,050
Circulation pumps	10	4	5,065
Hot water heater	15	10	2,016
Pool cover: replace	10	9	7,829
Swimming pool: resurface	12	6	59,750
Pool filter: replace	15	10	3,360
Total			<u>\$ 1,894,564</u>