

KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.

FINANCIAL STATEMENTS

and

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
The Knolls Village Townhouse Association, Inc.

I have audited the accompanying financial statements of The Knolls Village Townhouse Association, which comprise the balance sheet as of December 31, 2016, 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 financials 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.

The Knolls Village Townhouse Association, 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 The Knolls Village Townhouse Association, Inc. as of December 31, 2016, 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  
April 15, 2017

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents (Note 3)	\$ 68,558	\$ 206,056	\$ 274,614
Cash - painting escrow (Notes 4 and 9)	92,128		92,128
Certificates of deposit (Note 8)		200,000	200,000
Accounts receivable, homeowners, net of \$0 allowance for doubtful accounts	5,202		5,202
Prepaid insurance	4,503		4,503
Prepaid income taxes	349		349
Property and equipment, net of accumulated depreciation of \$16,686 (Note 3)	794		794
	<u>171,534</u>	<u>406,056</u>	<u>577,590</u>
<u>TOTAL ASSETS</u>	<u>\$ 171,534</u>	<u>\$ 406,056</u>	<u>\$ 577,590</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 9,539	\$	\$ 9,539
Payroll taxes payable	4,257		4,257
Prepaid assessments	18,690		18,690
Total liabilities	<u>32,486</u>	<u>0</u>	<u>32,486</u>
Fund balances	<u>139,048</u>	<u>406,056</u>	<u>545,104</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 171,534</u>	<u>\$ 406,056</u>	<u>\$ 577,590</u>

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

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
STATEMENT OF REVENUES AND EXPENSES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<u>REVENUES</u>			
Member assessments (Note 4)	\$ 493,255	\$ 90,185	\$ 583,440
Painting assessments (Notes 4 and 9)	67,320		67,320
Recovery of bad debt	1,500		1,500
Late and collection fees	1,040		1,040
Interest and dividend income	449	1,414	1,863
Miscellaneous income - recycling	66		66
Premium amortization		3	3
Total Revenues	<u>563,630</u>	<u>91,602</u>	<u>655,232</u>
 <u>EXPENSES</u>			
Payroll and related taxes	175,820		175,820
Water and sewer	130,356		130,356
Grounds maintenance	86,207		86,207
Exterior painting	58,761		58,761
Trash removal	39,892		39,892
Insurance	15,975		15,975
Bookkeeping	12,000		12,000
Office and administrative	8,482		8,482
Gas and electric	7,161		7,161
Pool, tennis courts and clubhouse	6,208		6,208
Snow removal	5,526		5,526
Legal and audit	3,149		3,149
Committee expenses (publicity and hospitality)	1,086		1,086
Depreciation (Note 3)	649		649
Taxes (Note 6)	0		0
Replacement fund expenses:			
Streets and sidewalks		72,353	72,353
Sprinkler system and landscape		6,173	6,173
Total Expenses	<u>551,272</u>	<u>78,526</u>	<u>629,799</u>
Excess of Revenues over Expenses or (Expenses over Revenues)	12,357	13,076	25,433
Beginning Fund Balances	<u>126,691</u>	<u>392,980</u>	<u>519,671</u>
Ending Fund Balances	<u>\$ 139,048</u>	<u>\$ 406,056</u>	<u>\$ 545,104</u>

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

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess / (Deficit ) of revenues over expenses	\$ 12,357	\$ 13,076	\$ 25,433
(Increase) decrease in:			
Accounts receivable - homeowners	1,121		1,121
Prepaid insurance	(1,204)		(1,204)
Prepaid income taxes	(349)		(349)
Depreciation	649		649
Increase (decrease) in:			
Accounts payable	3,058		3,058
Payroll taxes payable	2,274		2,274
Prepaid assessments	(506)		(506)
Income taxes payable	(9,521)		(9,521)
Net Cash Provided (Used) by Operating Activities	<u>7,879</u>	<u>13,076</u>	<u>20,955</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Net Certificate of Deposit maturity (purchase)		100,000	100,000
Net Cash Provided / (Used) by Investing Activities	<u>0</u>	<u>100,000</u>	<u>100,000</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Interfund receivable / payable	3,195	(3,195)	0
Net Cash Provided / (Used) by Financing Activities	<u>3,195</u>	<u>(3,195)</u>	<u>0</u>
Net increase (decrease) in cash	11,074	109,881	120,955
Cash at beginning of year	149,612	96,175	245,787
Cash at end of year	<u>\$ 160,686</u>	<u>\$ 206,056</u>	<u>\$ 366,742</u>
<u>Supplemental disclosures of cash flow information:</u>			
Cash paid during the year for:			
Interest expense	\$ 0	\$ 0	\$ 0
Income taxes	\$ 10,000	\$ 0	\$ 10,000

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

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 1. NATURE OF ORGANIZATION

The Knolls Village Townhouse Association, Inc. (the Association), a nonprofit corporation organized under the laws of Colorado in 1976, was formed to manage, maintain and preserve the common area property on behalf of the members of the Association. The development consists of 374 residential units and is located in Centennial, Colorado. The Association is responsible for the maintenance and preservation of the common area, which includes grounds and improvements. 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 April 15, 2017, the date that the financial statements were available to be issued.

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.

Assessments collected for the exterior painting is a component of the Operating Fund and have been deposited into a separate "painting escrow" investment account.

**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.

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016

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.

The Association's policy for recognizing common property as assets in its balance sheet is to recognize (a) common personal property and (b) real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members on the basis of usage or from nonmembers. No such property has been capitalized. The Association recognizes personal property, such as furniture and equipment, at cost. Such property is depreciated using accelerated methods of depreciation over the following lives:

Equipment and furniture:	5 and 7 years
Storage shed	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 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, 2016, monthly assessments to owners were \$145, composed of:

Operating fund assessment income	\$ 493,255	75%
Painting assessment income	67,320	11
Replacement fund assessment income	<u>90,185</u>	<u>14</u>
Total	<u>\$ 650,760</u>	<u>100%</u>

As a result of an amendment to the Association's governing documents, the Association has assumed the responsibility for exterior painting.



THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

**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 \$406,056 at December 31, 2016, are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Association's management conducted a study in February, 2016, 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 adjustments 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.

The Association is funding the reserves, and in 2016 \$90,185 was transferred to the reserve fund.

**NOTE 6. FEDERAL AND STATE CORPORATE INCOME TAXES**

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a homeowners' association. As a homeowners' association, 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. 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 no taxable income for the year ended December 31, 2016.

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 2013, 2014, and 2015 remain open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016

NOTE 7. REAL PROPERTY

Although this is not a title report or opinion based on information provided, the Association appears to own the following properties:

- (a) Lot 108A of Filing No. 2: greenbelts and four alleys
- (b) Lot 109 of Filing No. 2: greenbelts and six alleys
- (c) Lot 126 of Filing No. 3: greenbelts, eleven alleys and the recreation center (consisting of the clubhouse, pool and tennis courts)
  
- (d) Lot 143 of Filing No. 4: greenbelts, thirteen alleys, open space, and East Geddes Place and South Columbine Way.

The disposition and use of these properties is restricted by the Association's governing documents. Each member of the Association has a beneficial or undivided interest in such property.

NOTE 8. CERTIFICATES OF DEPOSIT

FDIC insured certificates of deposit consist of the following, at face value:

Bank India New York, 0.50%, due 5/10/17	\$ 100,000
Discover Bank, 0.75%, due 11/9/17	<u>100,000</u>
	<u>\$ 200,000</u>

NOTE 9. PAINTING ESCROW

A separate investment account was established in January 2004 to segregate exterior painting assessments (see Note 3) from regular assessments. The 2016 activity in the segregated account was as follows:

Beginning painting escrow balance at January 1, 2016	\$ 83,561
Monthly transfer in, at \$5,610 per month for 12 months	67,320
Interest earned	8
Less: Exterior painting expenses paid from the escrow account	<u>(58,761)</u>
Painting escrow balance at December 31, 2016	<u>\$ 92,128</u>

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
 REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2016

The Association engaged an independent engineer who conducted a study in February, 2016, to estimate the remaining useful lives and the 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. However, the remaining useful lives have been adjusted. The estimates were based on current replacement costs, with adjustments for future inflation of 2.0% and interest earned, net of tax, of 0.20%.

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.

The independent engineer estimates that \$439,261 needs to be accumulated for the Association to be "fully funded" i.e., to have accumulated the proportionately correct amount of money for the reserve components maintained.

<u>Components</u>	<u>Useful Life</u> <u>(Years)</u>	<u>Remaining</u> <u>Useful Life</u> <u>(Years)</u> <u>as of 2/2/16</u>	<u>Current Cost</u>
Streets – asphalt, overlay, phases 1-2	20	17-18	\$ 52,230
Streets – asphalt, repairs	5	3	1,915
Streets – asphalt, slurry seal	5	3	9,053
Alleys & parking – asphalt, overlay, phases 1-6	20	9-19	117,067
Alleys & parking – asphalt, repair, phases 1-6	6	0-5	12,875
Alleys & parking – asphalt, slurry seal, phases 1-6	6	0-5	20,292
Alleys & parking – slurry seal & concrete replace Concrete	6 3	0-1 2	26,000 10,000
Irrigation – sprinkler system replace, phases 1-9	38-46	0-9	150,000
Irrigation – controllers	2	1	3,500
Pool equipment – boiler, large pool	24	6	5,500
Pool equipment – boiler, small pool	24	0	3,000
Pool equipment – filters	14	0	3,000
Pool equipment – pump, large pool	14	8	1,400
Pool equipment – pump, small pool	14	3	1,200
Pool area – fencing, wrought iron	43	5	5,690
Pool area – fencing, wood	43	5	4,218
Pool area – gazebo cover	12	3	4,500
Pool area – painting, wrought iron & wood fencing	4	2	1,300
Pool area – pool covers	12	0	6,700
Pool area – pool deck	30	0	41,080
Pool area – pool surface painting	12	8	9,000
Clubhouse interior – cabinets & counters	22	21	2,000
Clubhouse interior – flooring, carpet	20	2	2,474
Clubhouse interior – flooring, ceramic tile	30	14	19,088

THE KNOLLS VILLAGE TOWNHOUSE ASSOCIATION, INC.  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2016

<u>Components (continued)</u>	<u>Useful Life</u> <u>(Years)</u>	<u>Remaining</u> <u>Useful Life</u> <u>(Years)</u> <u>as of 2/2/16</u>	<u>Current Cost</u>
Clubhouse interior – furniture	20	2	5,000
Clubhouse interior – insulation	22	21	4,300
Clubhouse interior – kitchen, appliances	15	14	2,850
Clubhouse interior – lighting	40	2	3,760
Clubhouse interior – painting	8	7	2,654
Clubhouse interior – plumbing fixtures	46	8	5,250
Clubhouse interior – restroom partitions	24	8	5,300
Clubhouse interior – window film	40	2	2,000
Clubhouse exterior – lighting	40	2	1,050
Clubhouse exterior – painting	8	5	1,016
Clubhouse exterior – railing, wrought iron	43	5	1,512
Clubhouse exterior – roof	22	20	4,463
Clubhouse exterior – siding	43	5	21,252
Grounds – landscape refurbishment	4	3	5,000
Grounds – lighting	43	5	10,050
Grounds – signs, address	10	9	1,360
Grounds – wood fencing, southeast side	22	17	1,980
Grounds – wood fencing, University Blvd.	22	6	39,881
Grounds – wood retaining walls	6	0	7,500
Equipment – HVAC, air conditioners	16	7	2,800
Equipment – HVAC, furnace	18	17	4,147
Equipment – water heater	12	9	800
Tennis courts – asphalt replace	62	24	10,000
Tennis courts – fencing, chain link	48	10	14,256
Tennis courts – resurfacing	17	1	6,091
Tennis courts – windscreen	40	2	1,350
Total			\$ 678,704