



To the Board of Directors of  
Cedar Lane at Cherry Creek Homeowners Association, Inc.  
C/O Summit Management and Consulting  
9101 E. Kenyon Ave Suite #1200  
Denver, CO 80237

April 20, 2020

Dear Board of Directors,

We recently completed our audits of Cedar Lane at Cherry Creek Homeowners Association, Inc. (the "Association"), for the periods from September 1, 2015 to July 31, 2019 (Turnover Audit) and from August 1, 2019 to February 29, 2020 (Audit). During our procedures we noted the following matters to bring to the attention of the Board.

#### **Homeowner Assessments**

For the periods under audit, the Association's homeowner assessments were \$290 per month. The total assessment for the Association from September 1, 2015 to July 31, 2019 was \$112,722. We wanted to bring your attention to the Turnover Audit's Adjusting Journal Entry (AJE) # 4. Two lots, lot 9 and lot 16, owned by 2821 E Cedar Ave Lot 9 and 2821 E Cedar Ave Lot 16 LLC respectively, were each overcharged \$290 for assessments. Lot 9 was charged twice for November 2016 assessments while Lot 16 was charged twice for October 2018 assessments. Please note that the Turnover Audit AJE #4 calls to record a payable to those owners, either via a refund or a credit toward a future assessment.

#### **Design Review Fees**

The Association had intended to collect \$2,500 Design Review Fees from each first homebuyer to cover the design review costs. At the end of the Declarant Control period on July 31, 2019, twenty lots were sold with three lots remaining. For the Turnover Audit period, the Association had collected Design Review Fees from 12 homeowners. Lot 5 was not obligated to pay \$2,500 because it purchased Richmond Homes' finished home. The following owners of seven lots were not charged \$2,500 Design Review Fee: Lot 2, Lot 12, Lot 13, Lot 14, Lot 17, Lot 19, and Lot 20. Please note that the Turnover Audit AJE # 5 calls to record a \$17,500 receivable due from 7 lot owners listed above.

The remaining three lots (Lot 11, Lot 21, and Lot 22) were sold between August 1, 2019 and February 29, 2020. Design Review Fees were not collected from these lots. Please note that the Audit AJE #4 calls to record a \$7,500 receivable from 3 lot owners listed above. In total there are 10 owners that were not charged the Design Review Fees for a total of \$25,000.

#### **Working Capital**

The Association requires every owner of each unit (other than Builder), to make at the time of purchase, a non-refundable contribution to the Association in an amount equal to two times the regular monthly assessment against that Unit in effect. We wanted to bring your attention to the Turnover Audit's AJE # 8. Lot 2 owned by the Madison Street Realty Holdings, LLC was not charged \$580 for the Working Capital. Please note that the Turnover Audit AJE #8 calls to record a receivable due from Lot 2.

Additionally, professional standards require that we provide you with the following information related to our audit:

*Qualitative Aspects of Accounting Practices*

The Board of Directors is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used within the audited financial statements are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the period under Turnover Audit from September 1, 2015 to July 31, 2019 and for the Audit from August 1, 2019 to February 29, 2020. Besides above disclosed concerns, we noted no transactions entered into by the Association during the audit period for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period after the audit adjustments proposed by us. The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with the Board or with the management company personnel in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the Board of Directors. We have provided the Board with schedules supporting the correction of misstatements identified in the audit. Those adjustments are shown in pages 10-12 within both audit reports. The Board should review these adjustments. By signing Representation Letters the Board expressly indicates an understanding and approval of these adjustments.

*Disagreements with the Board or with Management Company Personnel*

For purposes of this letter, professional standards define a "disagreement" as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audits.

This letter is intended solely for the use of the board of the Association and is not to be used by third parties for any other purposes. We considered the foregoing in our procedures, and this report does not affect the report on the financial statements. We would be pleased to discuss the above paragraphs with the Board, and to answer any questions concerning the financial statements.

Sincerely,

A handwritten signature in black ink, appearing to be 'JF' or similar, written in a cursive style.

Finite, LLC



**CEDAR LANE AT CHERRY CREEK  
HOMEOWNERS ASSOCIATION, INC.**

Independent auditor's report on  
Financial Statements  
And Supplementary Information

For the Period August 1, 2019 – February 29, 2020

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Homeowners  
Cedar Lane at Cherry Creek Homeowners Association, Inc.

I have audited the accompanying financial statements of Cedar Lane at Cherry Creek Homeowners Association, Inc., which comprise the balance sheet as of February 29, 2020 and the related statements of revenues, expenses, and changes in fund balances and cash flows for the period August 1, 2019 to February 29, 2020.

### **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 the 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 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 of 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.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cedar Lane at Cherry Creek Homeowners Association, Inc. as of February 29, 2020 and the results of its operations and its cash flows for the period August 1, 2019 to February 29, 2020 are in accordance 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 Schedule of 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. The Association has not conducted a reserve study and will not present supplementary information.

Sonny Senulis, CPA



Principal  
Finite, LLC

Aurora, Colorado  
April 20, 2020

**Cedar Lane at Cherry Creek Homeowners Association, Inc.**

February 29, 2020

**Balance Sheet**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 75,303	\$ 56,501	\$ 131,804
Accounts receivable, net	11,022	-	11,022
Other Receivables	25,580	-	25,580
<b>Total Assets</b>	<u><b>111,905</b></u>	<u><b>56,501</b></u>	<u><b>168,406</b></u>
<b>LIABILITIES</b>			
Accounts payable	1,244	-	1,244
Prepaid assessments	1,739	-	1,739
Design Review Fees	52,698	-	52,698
Total Liabilities	55,680	-	55,680
<b>MEMBER'S EQUITY</b>			
Fund balances	56,224	56,501	112,726
Total member's equity	56,224	56,501	112,726
<b>Total Liabilities and Member's Equity</b>	<u><b>\$ 111,905</b></u>	<u><b>\$ 56,501</b></u>	<u><b>\$ 168,406</b></u>

# Cedar Lane at Cherry Creek Homeowners Association, Inc.

## Statement of Revenues, Expenses and Changes in Fund Balances

For the Period August 1, 2019 - February 29, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Homeowner Assessments	\$ 46,600	\$ -	\$ 46,600
Allocation of assessments to replacement fund	(4,669)	4,669	-
Working Capital	4,060	-	4,060
Late fees and other income	640	-	640
Interest income	16	110	126
Total Revenues	<u>46,647</u>	<u>4,779</u>	<u>51,426</u>
<b>EXPENSES</b>			
Repairs and maintenance	6,265	-	6,265
Utilities	4,169	-	4,169
Management	3,500	-	3,500
Snow Removal	2,615	-	2,615
Insurance	1,510	-	1,510
Administrative	1,171	-	1,171
Legal and Professional Fees	590	-	590
Total Expenses	<u>19,820</u>	<u>-</u>	<u>19,820</u>
Excess (deficit) of revenues over expenses	<b>26,827</b>	<b>4,779</b>	<b>31,606</b>
<b>MEMBER'S EQUITY</b>			
Beginning fund balances	<u>29,397</u>	<u>51,722</u>	<u>81,120</u>
Ending fund balances	<u><b>\$ 56,224</b></u>	<u><b>\$ 56,501</b></u>	<u><b>\$ 112,726</b></u>



# Cedar Lane at Cherry Creek Homeowners Association, Inc.

## Statement of Cash Flows

For the Period August 1, 2019 - February 29, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>			
Excess (deficit) of revenues over expenses	\$ 26,827	\$ 4,779	\$ 31,606
Adjustments to reconcile excess (deficit) to cash			
Decrease (increase) in operating assets:			
Accounts Receivable	1,116	-	1,116
Other Receivables	9,128	-	9,128
Increase (decrease) in operating liabilities:			
Accounts payable	-	-	-
Prepaid assessments	(3,409)	-	(3,409)
Design Review Fees	7,500	-	7,500
Cash provided by (used from) operating activities	<u>41,162</u>	<u>4,779</u>	<u>45,941</u>
Net increase (decrease) in cash and cash equivalents	41,162	4,779	45,941
<b>CASH AND CASH EQUIVALENTS:</b>			
Cash at beginning of year (8/1/2019)	34,140	51,722	85,863
<b>Cash at End of Year (2/29/2020)</b>	<u><u>\$ 75,303</u></u>	<u><u>\$ 56,501</u></u>	<u><u>\$ 131,804</u></u>

# **Cedar Lane at Cherry Creek Homeowners Association, Inc.**

## **Notes to Financial Statements**

**February 29, 2020**

### **Note 1. Nature of Organization**

Cedar Lane at Cherry Creek Homeowners Association, Inc (the "Association") was incorporated on September 11, 2015, in the state of Colorado. The Association is responsible for the operation, management, maintenance, and improvements of the common property within the development. The Association is located in Denver County, Colorado and consists of the owners of 23 residences.

### **Note 2. Summary of Significant Accounting Policies**

#### *BASIS OF ACCOUNTING*

The accompanying financial statements have been prepared in accordance with 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 – used to account for financial resources available for the general operations of the association

Replacement Fund – used to accumulate financial resources designated for future major repairs and replacements

#### *CASH AND CASH EQUIVALENTS*

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

The Association's cash and cash equivalents at February 29, 2020 consisted of a checking account book balance of \$75,303 in the operating fund; and savings accounts and a money market funds book balance of \$56,501 in the replacement fund.

### *MEMBER ASSESSMENTS*

Association members are subject to assessments to provide funds for their Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and owner assessments are determined by the Board of Directors. The total member assessment for the Association for the period from August 1, 2019 to February 29, 2020 was \$46,600 of which \$4,669 was designated to the replacement fund.

### *WORKING CAPITAL*

The Association requires every owner of each unit (other than Builder), to make at the time of purchase, a non-refundable contribution to the Association in an amount equal to two times the regular monthly assessment against that Unit in effect. Funds in the Working Capital fund should be segregated for the use and benefit of the Association to meet unforeseen expenditures. The total Working Capital for the period from August 1, 2019 to February 29, 2020 was \$4,060.

### *ASSESSMENTS RECEIVABLE*

Assessments are stated on the balance sheet at face value. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent.

### *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.

### *INCOME TAXES*

The Association must file annual federal and Colorado income tax returns. Homeowner associations may be taxed either as homeowner associations (1120-H) or as regular corporations (1120). Under section 528 the Association is not taxed on assessment revenues or on other income derived from members and used to serve Association's exempt purposes. Those exempt purposes generally include the maintenance, management, and care of Association property. However, under section 528 certain income, such as interest, is deemed to be related to nonexempt purposes. Nonexempt income, net of expenses allocable to that income, is taxable for both federal and Colorado tax purposes.

### *INTEREST INCOME*

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

## *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. Date of Management's Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report, which is the date that the financial statements were available to be issued.

### **Note 4. Contingencies**

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

### **Note 5. Adoption of New Accounting Pronouncement**

The Financial Standards Board's Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* introduced a comprehensive, principles-based framework for recognizing revenue. Principles-based framework is very different from the previous rules-based framework. With that said, some interpretations of Topic 606 radically change how Common Interest Realty Associations (CIRA) recognize revenue. It is mainly based on a belief that homeowners are considered customers and if so, any unused assessments for future repairs and replacements of common property should be reflected as contract liabilities until the funds are used, at which time a revenue event would be reported by the CIRA.

Historically, replacements reserve assessments are recognized as revenue when the assessment is made, and accumulated replacement funds are reflected as members' equity in the CIRA's balance sheet. Our position is that transactions between homeowners and the Association indicate that the nature of the relationship is with the owner in their capacity as an owner and not as a customer or supplier. The best representation of revenue from assessments for operations or replacement reserves is to report revenue when the assessment is made and the assets of the entity are enhanced, and the traits of accumulated funds in the CIRA most closely resemble the traits of equity to owners as stated in CON6 and lack the essential characteristics of liability. Accordingly, it seems that the application of Topic 606 to assessments transactions is not proper and the scope of Topic 606 would not include assessments between a CIRA and the owner-members. Therefore, in our opinion, Topic 606 does not change how CIRAs recognize revenues from their homeowner members.

**Note 6. Future Major Repairs and Replacements**

The Association has not conducted a reserve study of its various common elements. However, the Association has been allocating funds to the reserve account for possible future major repairs and replacements. These funds are being accumulated based on estimated future costs. Actual results may vary from these estimates, and such variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**Cedar Lane at Cherry Creek Homeowners Association, Inc.**

February 29, 2020

**Summary AJE**

<b>Account Description</b>	<b>DR</b>	<b>CR</b>
Other Receivables	7,500.00	
Assessments	245.00	
Interest - Reserves	11.58	
Equity - Reserves	4.61	
Premier Bank Operating Reserve	2.19	
Design Review Fees		7,500.00
Late Fees		245.00
Retained Earnings		11.58
Equity - Operating		4.61
Interest - Operating Reserves		2.19
<b>Total</b>	<b>7,763.38</b>	<b>7,763.38</b>

# Cedar Lane at Cherry Creek Homeowners Association, Inc.

February 29, 2020

## Audit Adjusting Journal Entries (AJEs)

AJE 1	DR	Premier Bank Operating Reserve	2.19	
	CR	Interest - Operating Reserve		2.19
Record Feb 2020 Oper Res Interest				

AJE 2	DR	Equity - Reserves	4.61	
	DR	Interest - Reserves	11.58	
	CR	Retained Earnings		11.58
	CR	Equity - Operating		4.61
Correct Equity account balance				

AJE 3	DR	Assessments	245.00	
	CR	Late Fees		245.00
Reclassify Late Fess				

AJE 4	DR	Other Receivables	7,500.00	
	CR	Design Review Fees		7,500.00
Record Design Review Fees as Receivables from 3 uncollected lots 8/1/19-2/29/20				

**Cedar Lane at Cherry Creek Homeowners Association, Inc.**

February 29, 2020

**Trial Balance Worksheet**

Acct #	Account Description	Feb 29, 2020		AJE #	Feb 29, 2020
		Unadjusted	Adjustments		Adjusted
1010	Premier Bank Operating	64,255.63			64,255.63
1011	Prior Mgmt Citywide Operating	-267.82	267.82	TA	0.00
1015	Premier Bank Reserve	56,501.19			56,501.19
1016	Premier Bank Operating Reserve	11,044.82	2.19	1	11,047.01
1040	Accounts Receivable	11,022.00			11,022.00
	Other Receivables	0.00	25,580.00	4	25,580.00
1300	Antennas/Card Reader	4,364.00	-4,364.00	TA	0.00
	Accounts Payable	0.00	-663.68	TA	-663.68
	Other Payables	0.00	-580.00	TA	-580.00
2020	Prepaid Assessments	-1,739.00			-1,739.00
2050	Design Review Fees	-57,697.50	5,000.00	4	-52,697.50
3000	Equity - Operating	5,038.44	-54,991.51	2	-49,953.07
3020	Equity - Reserves	-46,960.94	-8,185.99	2	-55,146.93
	Retained Earnings	-37,925.78	37,925.78	2	0.00
4000	Assessments	-13,585.00	245.00	3	-13,340.00
	Interest - Operating Reserves	-2.34	-2.19	1	-4.53
	Interest - Reserves	-31.84	11.58	2	-20.26
4086	Working Capital	-1,160.00			-1,160.00
	Late Fees	0.00	-245.00	3	-245.00
4090	Transfer to Reserves	1,334.00			1,334.00
5005	Audit/Tax Preparation	250.00			250.00
5030	Legal-Collections/Late Letter Fees	70.00			70.00
5045	Management Contract	1,000.00			1,000.00
510	Insurance	503.40			503.40
5055	Office Supplies	5.25			5.25
5060	Postage & Delivery	21.00			21.00
5065	Printing & Reproduction	51.30			51.30
5306	Common Area Lighting (Contract)	2,211.18			2,211.18
5350	Landscaping Contract	870.00			870.00
5390	Snow Removal	1,717.50			1,717.50
8000	Gas and Electric	112.36			112.36
8010	Sewer	64.14			64.14
8040	Telephone	268.01			268.01
9000	Transfer from Operating	-1,334.00			-1,334.00
Balance		0.00	0.00		0.00
Profit (Loss)		7,635.04	-9.39		7,625.65

TA Turnover Audit AJEs