

**FOUNTAIN OF THE SUN
COMMUNITY ASSOCIATION**

**FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT)**

**AS OF
DECEMBER 31, 2011
AND FOR THE YEAR THEN ENDED**

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Fountain of the Sun Community Association

We have audited the accompanying balance sheet of Fountain of the Sun Community Association (an Arizona Corporation), as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fountain of the Sun Community Association as of December 31, 2011, 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.

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property, on page 11, 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. 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.

Butler Hansen, P.C.

Mesa, Arizona
August 23, 2012

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2011**

| | <u>OPERATING FUND</u> | <u>REPLACEMENT FUND</u> | <u>TOTAL</u> |
|---------------------------------------------------------------------------|---------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| <u>CURRENT ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 161,096 | \$ 440,165 | \$ 601,261 |
| Accounts Receivable | 7,640 | - | 7,640 |
| Undeposited Funds | 3,353 | - | 3,353 |
| Prepaid Insurance | 1,648 | - | 1,648 |
| Prepaid Expenses | 233 | - | 233 |
| Postage Inventory | 14,834 | - | 14,834 |
| Total Current Assets | <u>188,804</u> | <u>440,165</u> | <u>628,969</u> |
| <u>PROPERTY AND EQUIPMENT</u> | | | |
| Property and Equipment, Net of Accumulated Depreciation of \$1,178,226 | <u>573,888</u> | <u>-</u> | <u>573,888</u> |
| Total Property and Equipment | <u>573,888</u> | <u>-</u> | <u>573,888</u> |
| Total Assets | <u>\$ 762,692</u> | <u>\$ 440,165</u> | <u>\$ 1,202,857</u> |
| LIABILITIES AND FUND BALANCES | | | |
| <u>CURRENT LIABILITIES</u> | | | |
| Accounts Payable | \$ 4,220 | \$ - | \$ 4,220 |
| Accrued Expenses | 53,974 | - | 53,974 |
| Accrued Unemployment Tax Payable | 423 | - | 423 |
| Prepaid Assessments | 1,996 | - | 1,996 |
| Total Current Liabilities | <u>60,613</u> | <u>-</u> | <u>60,613</u> |
| Total Liabilities | <u>60,613</u> | <u>-</u> | <u>60,613</u> |
| <u>FUND BALANCES</u> | | | |
| Operating Fund | 702,079 | - | 702,079 |
| Replacement Fund | - | 440,165 | 440,165 |
| Total Fund Balances | <u>702,079</u> | <u>440,165</u> | <u>1,142,244</u> |
| Total Liabilities and Fund Balances | <u>\$ 762,692</u> | <u>\$ 440,165</u> | <u>\$ 1,202,857</u> |

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>OPERATING FUND</u> | <u>REPLACEMENT FUND</u> | <u>TOTAL</u> |
|----------------------------------|---------------------------|-----------------------------|------------------|
| REVENUES | | | |
| FOSHA Assessment Income | \$ 714,668 | \$ - | \$ 714,668 |
| Condominium Assessment Income | 414,335 | - | 414,335 |
| Sun Villa Apartments Income | 11,196 | - | 11,196 |
| FOSHA Lease Income | 12 | - | 12 |
| Chatterbox Lease Income | 3,760 | - | 3,760 |
| Room Rental Income | 730 | - | 730 |
| Counter Services | 2,370 | - | 2,370 |
| Counter Sales | 332 | - | 332 |
| Resident Sales Income | 4,397 | - | 4,397 |
| Sales Commissions | 2,506 | - | 2,506 |
| Recycling | 5,653 | - | 5,653 |
| Vending Water Income | 5,063 | - | 5,063 |
| Activities Income | 73,363 | - | 73,363 |
| Bingo Income | 72,471 | - | 72,471 |
| Stamp Sales Income | 121,541 | - | 121,541 |
| Post Office Income | 12,642 | - | 12,642 |
| Impact Fee | - | 148,227 | 148,227 |
| Interest Income | - | 1,562 | 1,562 |
| Refund of Federal Income Taxes | 1,834 | - | 1,834 |
| Reimbursement of Insurance Claim | 1,362 | - | 1,362 |
| Miscellaneous Income | 1,081 | - | 1,081 |
| TOTAL REVENUES | <u>1,449,316</u> | <u>149,789</u> | <u>1,599,105</u> |
| EXPENSES | | | |
| General and Administrative | 33,458 | - | 33,458 |
| Taxes | 1,588 | - | 1,588 |
| Office Expenses | 20,305 | - | 20,305 |
| Insurance Expenses | 29,327 | - | 29,327 |
| Miscellaneous Sales Expenses | 3,000 | - | 3,000 |
| Depreciation Expense | 82,107 | - | 82,107 |
| Activities Expenses | 61,275 | - | 61,275 |
| Bingo Expenses | 16,547 | - | 16,547 |
| Wages and Salary | 268,610 | - | 268,610 |
| Personnel Expenses and Taxes | 51,951 | - | 51,951 |
| Repairs and Maintenance | 41,124 | - | 41,124 |
| Equipment Expenses | 20,436 | - | 20,436 |
| Janitorial | 46,217 | - | 46,217 |
| Pool Expenses | 42,047 | - | 42,047 |
| Utilities | 141,352 | - | 141,352 |
| Grounds Maintenance | 53,240 | - | 53,240 |
| Security Expenses | 321,873 | - | 321,873 |
| Reserve Expenditures | - | 40,338 | 40,338 |
| Cost of Goods Sold, Postage | 121,541 | - | 121,541 |
| TOTAL EXPENSES | <u>1,355,998</u> | <u>40,338</u> | <u>1,396,336</u> |

(CONTINUED)

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | <u>OPERATING FUND</u> | <u>REPLACEMENT FUND</u> | <u>TOTAL</u> |
|---------------------------------------------|---------------------------|-----------------------------|---------------------|
| EXCESS REVENUES (EXPENSES) | 93,318 | 109,451 | 202,769 |
| FUND BALANCES, BEGINNING OF YEAR | 617,059 | 322,416 | 939,475 |
| TRANSFERS BETWEEN FUNDS | | | |
| Contributions to Reserves | (44,000) | 44,000 | - |
| Capitalized Fixed Asset Transfer | 35,702 | (35,702) | - |
| Net Transfers | <u>(8,298)</u> | <u>8,298</u> | <u>-</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 702,079</u> | <u>\$ 440,165</u> | <u>\$ 1,142,244</u> |

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | OPERATING FUND | REPLACEMENT FUND | TOTAL |
|-----------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|--------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | |
| Excess Revenues (Expenses) | \$ 93,318 | \$ 109,451 | \$ 202,769 |
| Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities | | | |
| Depreciation | 82,107 | - | 82,107 |
| (Increase)/Decrease In | | | |
| Assessments Receivable | (3,059) | - | (3,059) |
| Undeposited Funds | (3,353) | - | (3,353) |
| Prepaid Expenses | (233) | - | (233) |
| Postage Inventory | (4,008) | - | (4,008) |
| Prepaid Insurance | 1,663 | - | 1,663 |
| Increase/(Decrease) In | | | |
| Accounts Payable | (2,988) | - | (2,988) |
| Accrued Income Taxes | (1,954) | - | (1,954) |
| Accrued Expenses | 31,563 | - | 31,563 |
| Unemployment Tax Payable | 423 | - | 423 |
| Prepaid Assessments | (3,672) | - | (3,672) |
| Net Cash Provided (Used) by Operating Activities | 189,807 | 109,451 | 299,258 |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | |
| Purchase of Property and Equipment | (48,672) | (35,702) | (84,374) |
| Net Cash Provided (Used) by Investing Activities | (48,672) | (35,702) | (84,374) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | |
| Allocation to Reserves | (44,000) | 44,000 | - |
| Net Cash Provided (Used) by Financing Activities | (44,000) | 44,000 | - |
| NET INCREASE (DECREASE) IN CASH | 97,135 | 117,749 | 214,884 |
| CASH BALANCE, BEGINNING OF YEAR | 63,961 | 322,416 | 386,377 |
| CASH BALANCE, END OF YEAR | \$ 161,096 | \$ 440,165 | \$ 601,261 |
| <u>SUPPLEMENTARY INFORMATION</u> | | | |
| Income Taxes Paid | \$ - | - | |
| Interest Paid | \$ - | - | |

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 1 – ORGANIZATION

Fountain of the Sun Community Association, a non-stock, non-profit homeowners' association, was incorporated on November 10, 1983, under the general non-profit laws of the State of Arizona. The Association was established to provide management, maintenance and preservation of the common areas and other property owned by the Association, or property placed under its jurisdiction. The Association is located in Mesa, Arizona and consists of 2,357 units. There is a Board of Directors elected by the member homeowners.

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, using the following funds established according to their nature and purpose:

Operating Fund

The Operating Fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

The Replacement Fund is used to account for the accumulation of funds for future major repairs and replacements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturities of three months or less, as cash and cash equivalents.

Investments

Certificates of deposit and/or other securities, purchased with original maturity dates greater than three months, are classified as investments. The Association's policy is to invest in cash, money market funds, and certificates of deposit, with a reasonable effort to preserve capital, maximize return, and minimize loss. Investments in debt securities are initially recorded at cost. Debt securities classified as held to maturity are reported at their amortized cost.

Assessments Collected in Advance

Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Association.

Common Property

Certain property and land were contributed by the developer at no cost to the Association. The Association has not recorded these assets, and accordingly, no value has been established. The primary contributed property and land consists of landscape, landscape rights-of-way, block walls and entry monuments, which can never be sold or subdivided. The Association has not placed a value on these assets, and they are not reflected in the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts.

Inventories

Inventories (from the Postal Center) are stated at the lower of cost or market using the first-in, first-out (FIFO) method.

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, 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. Accordingly, actual results could differ from those estimates. Estimates for the allowance for receivables are based on the Allowance Method.

Property and Equipment

The Association capitalizes all common real property to which it has title or other evidence of ownership and either:

1. can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, and it can retain the proceeds,
- or
2. the property is used to generate significant cash flows from members on the basis of usage.

Property not capitalized consists of land, and landscape rights-of-way.

The Association capitalizes personal property, with a purchase price of \$2,500 or more, and real property, with a purchase price of \$5,000 or more, that it acquires. Purchased property and equipment is recorded at cost and depreciated utilizing the straight-line depreciation method over the useful lives of the property and equipment.

Date of Management's Review

Subsequent events have been evaluated through August 23, 2012, which is the date the financial statements were available to be issued.

NOTE 3 – RETIREMENT PLAN

Effective July 1, 1997, the Association established a retirement plan known as a Simple IRA Plan, for its employees. The plan provides for employee contributions of up to a maximum of \$10,000 per year, and provides for an employer matching provision of dollar-for-dollar of employee contributions up to 3% of compensation. Total employer contributions to the plan in 2011 were \$951. On October 28, 2009, the Board of Directors voted to reduce the IRA matching contribution to 1%. In 2010, the Board voted to continue the 1% match through 2011, and to return the contribution match to 3% in 2012.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 – RECEIVABLES

Accounts receivable at December 31, 2011, represents assessments due. Accounts Receivable greater than 90 days overdue at December 31, 2011, was \$0. For the year ended December 31, 2011, no allowance for doubtful accounts was provided based on the receivables being brought current. Bad debt expense was \$0, for the year ended December 31, 2011.

Receivables consisted of the following at December 31, 2011:

| | <u>Total Due</u> | <u>Over 90 Days</u> |
|------------------------------|------------------|---------------------|
| Greenside Villas 8/3 | \$ 958 | \$ - |
| Parcel 9 Phase 3 | 5,668 | - |
| Sun Villa Apartment Income | 1,014 | - |
| Total Gross Receivables | <u>7,640</u> | <u>-</u> |
| Less: Allowance for Bad Debt | <u>-</u> | <u>-</u> |
| Total Net Receivables | <u>\$ 7,640</u> | <u>\$ -</u> |

NOTE 5 – ANNUAL ASSESSMENTS AND EXPENSES

Fountain of the Sun Community Association (FOSCA) is the master association for the community known as Fountain of the Sun. FOSCA assesses each sub-association an annual amount of \$479 for each unit within that Association, which is collected monthly. FOSCA also assesses the same fee to the owner of the Sun Villas Apartments for occupied units; these assessment rates are prorated weekly and collected monthly. No maximum annual assessment per unit has been established. The annual budget and assessments of owners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE 6 – INCOME TAXES

The Association files its income tax return as a homeowners association, in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed on its investment income and other non-exempt function income. The Association had a federal and state income tax liability of \$0 and \$50, respectively, for the year ended December 31, 2011. Federal and state income taxes disbursed in the current year for the prior year were \$0 and \$0, respectively.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 7 – CONCENTRATION OF CREDIT RISK

The Association's annual assessment revenue and related receivables are subject to significant concentrations of credit risk, given that the revenue is received primarily from members located within a small geographic area that can be adversely impacted by similar economic conditions. The financial instruments that potentially subject the Association to credit risk consist principally of assessments receivable, the majority of which contain provisions for recovery by placing liens on real property and through legal judgments. In the event that owners do not comply with the terms of the Covenants, Conditions and Restrictions, and collection efforts by the Association are unsuccessful, the Association could incur a loss equal to the amount due.

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), or other types of insurance programs.

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is accumulating funds for future major repairs and replacements. The annual provision to the replacement fund is determined by the Board of Directors and is based, in part, on projected reserve expenses derived in a study dated May 11, 2011, by a licensed contractor who inspected the property. The study provides an estimate of the repair and replacement costs of buildings, improvements, equipment and common area infrastructure.

The replacement fund represents funds restricted by the Board of Directors to meet these anticipated expenses. The replacement fund has been accumulated from homeowner assessments and impact fees, specifically assessed for the purpose of funding the replacement fund, and from other net revenues. Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association may increase regular assessments, up to the maximum annual assessment, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available. At December 31, 2011, funds accumulated for this purpose were \$440,165.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 9 – PROPERTY AND EQUIPMENT

During the year ended December 31, 2011, the Association added approximately \$84,374 of capitalized assets to the depreciation schedule. Depreciable Property and Equipment in use, as of December 31, 2011, consisted of the following:

| | <u>2011</u> |
|------------------------------------|------------------------|
| Property and Equipment: | |
| Building | \$ 921,762 |
| Improvements | 432,417 |
| Furniture and Fixtures | 203,891 |
| Machinery and Equipment | 93,090 |
| Vehicles | 12,500 |
| Miscellaneous | <u>88,454</u> |
| Total | 1,752,114 |
| Less: Accumulated Depreciation | <u>(1,178,226)</u> |
| Net Property and Equipment | <u>\$ 573,888</u> |

Depreciation expense for the year ended December 31, 2011 was \$82,107.

SUPPLEMENTARY INFORMATION

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS - UNAUDITED
DECEMBER 31, 2011**

The Association's board of directors engaged a firm to conduct a study to estimate the replacement costs of certain common property components. The study was completed on May 11, 2011. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property.

| <u>Component</u> | <u>Remaining Life (Years)</u> | <u>Estimated Current Replacement Cost</u> | <u>Replacement Fund Balance December 31, 2011</u> |
|------------------------|-----------------------------------|---------------------------------------------------|-----------------------------------------------------------|
| Equipment | 0.2 to 14.3 | \$ 121,180 | \$ - |
| Paint | 3.5 to 9.3 | 51,760 | - |
| Fixtures | 0.2 to 19.5 | 37,742 | - |
| Floor Covering | 2.2 to 22.5 | 89,128 | - |
| Furniture | 2.2 to 13.6 | 46,085 | - |
| Lighting | 3.5 to 14.5 | 32,130 | - |
| Structure | 0.2 to 15.3 | 30,700 | - |
| Appliances | 3.2 to 3.2 | 450 | - |
| Doors | 3.5 to 16.0 | 25,580 | - |
| HVAC Equipment | 3.5 to 14.4 | 99,200 | - |
| Vehicles | 3.5 to 9.3 | 18,000 | - |
| Signs | 3.5 to 22.2 | 15,250 | - |
| Decks | 0.2 to 0.2 | 20,000 | - |
| Bathroom | 14.3 to 14.3 | 13,000 | - |
| Window Coverings | 5.3 to 9.3 | 3,150 | - |
| Fixtures-Plumbing | 3.5 to 16.0 | 16,850 | - |
| Fences, Walls & Gates | 7.3 to 22.3 | 29,372 | - |
| Refurbish | 4.0 to 18.3 | 30,260 | - |
| Equipment - Restaurant | 3.2 to 21.8 | 53,250 | - |
| Equipment - Pool/Spa | 7.3 to 13.5 | 60,550 | - |
| Recreation Surfaces | 2.2 to 3.2 | 4,836 | - |
| Roofing Systems | 0.5 to 46.5 | 268,966 | - |
| Nova Chip Resurface | 26.5 to 30.5 | 548,803 | - |
| Asphalt - Seal Coat | 1.5 to 6.5 | 181,195 | - |
| Asphalt - Overlay | 15.3 to 21.3 | 115,136 | - |
| Asphalt | 5.5 to 33.5 | 613,553 | - |
| Concrete | 2.5 to 2.5 | 149,960 | - |
| Chip Seal Coat | 2.5 to 2.5 | 9,243 | - |
| Tile - Ceramic | 13.3 to 13.3 | 6,240 | - |
| Equipment - Kilns | 13.5 to 13.5 | 10,000 | - |
| Unallocated | | - | 440,165 |
| Total | | \$ 2,701,569 | \$ 440,165 |

See independent auditor's report.