



**FOUNTAIN OF THE SUN COMMUNITY
ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2013
AND FOR THE YEAR THEN ENDED



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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

Report on the Financial Statements

We have audited the accompanying financial statements of Fountain of the Sun Community Association (an Arizona Corporation), which comprise the balance sheet as of December 31, 2013, and the related statements of revenues, expenses and changes in fund balances 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 Fountain of the Sun Community Association as of December 31, 2013, 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 information on future major repairs and replacements of common property, on page 12, 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.

Beth Ann, F.C.

Mesa, Arizona
June 28, 2014

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2013**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$ 158,908	\$ 486,444	\$ 645,352
Accounts Receivable	3,536	-	3,536
Refundable Deposits	-	7,500	7,500
Prepaid Insurance	2,451	-	2,451
Postage Inventory	15,201	-	15,201
TOTAL CURRENT ASSETS	180,096	493,944	674,040
<u>PROPERTY AND EQUIPMENT</u>			
Property and Equipment, Net of Accumulated Depreciation of \$1,293,379	800,714	-	800,714
TOTAL PROPERTY AND EQUIPMENT	800,714	-	800,714
TOTAL ASSETS	\$ 980,810	\$ 493,944	\$ 1,474,754
LIABILITIES AND FUND BALANCES			
<u>CURRENT LIABILITIES</u>			
Accrued Expenses	\$ 54,754	\$ -	\$ 54,754
Accrued Unemployment Tax Payable	708	-	708
Accrued Payroll Liability	134	-	134
TOTAL CURRENT LIABILITIES	55,596	-	55,596
TOTAL LIABILITIES	55,596	-	55,596
<u>FUND BALANCES</u>			
Operating Fund	925,214	-	925,214
Replacement Fund	-	493,944	493,944
TOTAL FUND BALANCES	925,214	493,944	1,419,158
TOTAL LIABILITIES AND FUND BALANCES	\$ 980,810	\$ 493,944	\$ 1,474,754

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, 2013**

	<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	43,932	-	43,932
FOSHA Lease Income	12	-	12
Chatterbox Lease Income	1,860	-	1,860
Room Rental Income	4,390	-	4,390
Counter Services	2,989	-	2,989
Counter Sales	302	-	302
Stamp Inventory Adjustment	234	-	234
Resident Sales Income	5,993	-	5,993
Gain on the Sale of Fixed Assets	800	-	800
Sales Commissions	2,020	-	2,020
Recycling	5,931	-	5,931
Vending Water Income	5,381	-	5,381
Activities Income	80,447	-	80,447
Bingo Income	61,743	-	61,743
Fishing Permit	320	-	320
Stamp Sales Income	120,642	-	120,642
Post Office Income	11,949	-	11,949
Impact Fee	-	178,757	178,757
Interest Income	-	1,296	1,296
Miscellaneous Income	362	-	362
TOTAL REVENUES	<u>1,478,310</u>	<u>180,053</u>	<u>1,658,363</u>
EXPENSES			
General and Administrative	45,557	-	45,557
Taxes	3,000	-	3,000
Office Expenses	26,889	-	26,889
Insurance Expenses	29,306	-	29,306
Miscellaneous Sales Expenses	5,080	-	5,080
Depreciation Expense	101,447	-	101,447
Activities Expenses	65,956	-	65,956
Bingo Expenses	57,859	-	57,859
Wages and Salary	293,872	-	293,872
Personnel Expenses and Taxes	64,035	-	64,035
Repairs and Maintenance	77,339	-	77,339
Equipment Expenses	19,891	-	19,891
Janitorial	42,784	-	42,784
Pool Expenses	36,687	-	36,687
Utilities	134,002	-	134,002
Grounds Maintenance	50,007	-	50,007
Security Expenses	321,756	-	321,756
Reserve Expenditures	-	72,273	72,273
Cost of Goods Sold, Postage	120,642	-	120,642
TOTAL EXPENSES	<u>1,496,109</u>	<u>72,273</u>	<u>1,568,382</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, 2013**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
EXCESS REVENUES (EXPENSES)	(17,799)	107,780	89,981
FUND BALANCES, BEGINNING OF YEAR	783,459	545,718	1,329,177
TRANSFERS BETWEEN FUNDS			
Contributions to Reserves	(71,400)	71,400	-
Capitalized Fixed Asset Transfer	230,954	(230,954)	-
Net Transfers	159,554	(159,554)	-
FUND BALANCES, END OF YEAR	<u>\$ 925,214</u>	<u>\$ 493,944</u>	<u>\$ 1,419,158</u>

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Excess Revenues (Expenses)	\$ (17,799)	\$ 107,780	\$ 89,981
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities			
Gain on the Sale of Fixed Assets	(800)	-	(800)
Depreciation Expense	101,447	-	101,447
(Increase)/Decrease In			
Assessments Receivable	(294)	-	(294)
Refundable Deposits	-	(7,500)	(7,500)
Postage Inventory	(5,533)	-	(5,533)
Prepaid Insurance	33	-	33
Increase/(Decrease) In			
Accrued Payroll Liability	(10)	-	(10)
Accrued Expenses	33,720	-	33,720
Unemployment Tax Payable	(2,891)	-	(2,891)
Net Cash Provided (Used) by Operating Activities	107,873	100,280	208,153
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of Property and Equipment	(55,444)	(230,954)	(286,398)
Proceeds from the Sale of Property and Equipment	800	-	800
Net Cash Provided (Used) by Investing Activities	(54,644)	(230,954)	(285,598)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Allocation to Reserves	(71,400)	71,400	-
Net Cash Provided (Used) by Financing Activities	(71,400)	71,400	-
NET INCREASE (DECREASE) IN CASH	(18,171)	(59,274)	(77,445)
CASH BALANCE, BEGINNING OF YEAR	177,079	545,718	722,797
CASH BALANCE, END OF YEAR	\$ 158,908	\$ 486,444	\$ 645,352
<u>SUPPLEMENTARY INFORMATION</u>			
Income Taxes Paid	\$ 50		
Interest Paid	\$ -		

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1 – NATURE OF THE 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 2,452 units, consisting of 1,492 homes, 865 condominiums, and 95 apartment 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.

Assessments

In order to provide for any and all costs of operation and management of the Association, including, without limitation, reasonable reserves for replacements, maintenance and contingencies, the Board shall assess the lot owner no less than annually.

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, and less than one year, are classified as investments. Investments with maturity dates exceeding one year are classified as long-term 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.

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 streets, clubhouse complex, pool, spa, 1.5 acres landscaping, 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, 2013**

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 June 28, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - CASH AND CASH EQUIVALENTS

As of December 31, 2013, the cash and cash equivalent balances were as follows:

	2013		
	Operating	Reserve and Other	Total
General Checking Accounts	\$ 125,662	\$ 71,121	\$ 196,783
Post Office Account	10,342	-	10,342
Bingo Account	21,704	-	21,704
Money Market Accounts	-	415,323	415,323
Petty Cash	1,200	-	1,200
Total	\$ 158,908	\$ 486,444	\$ 645,352

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 4 – 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 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2013, represent assessments due. Accounts Receivable greater than 90 days overdue at December 31, 2013, were \$0. For the year ended December 31, 2013, no allowance for doubtful accounts was provided. Bad debt expense was \$0, for the year ended December 31, 2013.

Receivables consisted of the following at December 31, 2013:

	<u>Total Due</u>	<u>Over 90 Days</u>
Sun Villa Apartment Income	\$ 3,536	\$ -
Total Gross Receivables	3,536	-
Less: Allowance for Bad Debt	-	-
Total Net Receivables	<u>\$ 3,536</u>	<u>\$ -</u>

NOTE 6 – 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 7 – 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, 2013. Federal and state income taxes disbursed in the current year for the prior year were \$0 and \$50, respectively.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 8 – UNCERTAIN TAX POSITIONS

The Association accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Association recognizes tax positions only to the extent that Management believes it is “more likely than not” that its tax positions will be sustained upon examination by taxing authorities. Management believes that it has no uncertain tax position for the year ending December 31, 2013.

The Association believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association’s financial condition net income or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2013.

The Association is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Association believes it is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2011, or by Arizona state tax authorities for years before 2010.

NOTE 9 – PROPERTY AND EQUIPMENT

During the year ended December 31, 2013, the Association added approximately \$286,398 of capitalized assets to the depreciation schedule. Depreciable Property and Equipment in use, as of December 31, 2013, consisted of the following:

Property and Equipment:		
Building	\$	921,762
Improvements		778,466
Furniture and Fixtures		236,539
Machinery and Equipment		71,997
Vehicles		12,500
Miscellaneous		<u>72,829</u>
Total		2,094,093
Less: Accumulated Depreciation		<u>(1,293,379)</u>
Net Property and Equipment	\$	<u>800,714</u>

Depreciation expense for the year ended December 31, 2013 was \$101,447.

NOTE 10 – 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.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 10 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

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, 2013, funds accumulated for this purpose were \$493,944.

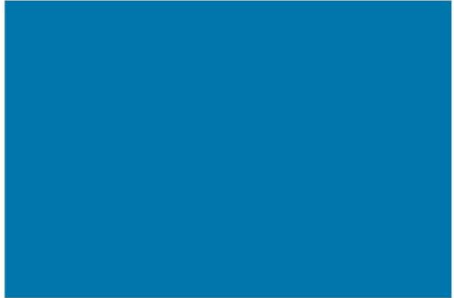
NOTE 11 – RETIREMENT PLAN

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. 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. Total employer contributions to the plan in 2013 were \$5,832.

NOTE 12 – SUBSEQUENT EVENT

On January 10, 2014, subsequent to the year ended December 31, 2013, the Association entered into a loan agreement with Fountain of the Sun Homeowners Association. The loan is for \$325,000 with interest of 3.5%. The purpose of the financing agreement was to purchase property for the use of RV Storage, for the members of the Association.

The unpaid principal and accrued interest shall be payable in monthly installments of \$5,912.32, beginning on February 10, 2014, and continuing until January 10, 2019, at which time all sums due shall be paid in full.



FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION



SUPPLEMENTARY INFORMATION



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**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS - UNAUDITED
DECEMBER 31, 2013**

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.

Component	Remaining Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance December 31, 2013
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		-	493,944
Total		\$ 2,701,569	\$ 493,944

See independent auditor's report.