



**FOUNTAIN OF THE SUN COMMUNITY
ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016
AND FOR THE YEAR THEN ENDED
(WITH SUMMARIZED COMPARATIVE TOTALS
AS OF DECEMBER 31, 2015 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, 2016, 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, 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.

Report on Summarized Comparative Information

We have previously audited the Fountain of the Sun Community Association's December 31, 2015 financial statements, and we expressed an unqualified opinion on those financial statements in our report dated February 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 16, 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, which 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.



Gilbert, Arizona
January 30, 2017

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2015)**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CAPITAL FUND</u>	<u>2016 TOTAL</u>	<u>2015 TOTAL</u>
ASSETS					
<u>CURRENT ASSETS</u>					
Cash and Cash Equivalents	\$ 43,030	\$ 595,826	\$ 25,537	\$ 664,393	\$ 662,153
Accounts Receivable	13,914	-	-	13,914	6,437
Prepaid Insurance	3,274	-	-	3,274	3,871
Postage Inventory	13,726	-	-	13,726	7,299
Access Card Inventory	5,585	-	-	5,585	9,851
TOTAL CURRENT ASSETS	<u>79,529</u>	<u>595,826</u>	<u>25,537</u>	<u>700,892</u>	<u>689,611</u>
<u>PROPERTY AND EQUIPMENT</u>					
Property and Equipment, Net of Accumulated Depreciation of \$1,676,189 and \$1,540,002, respectively	<u>1,138,487</u>	<u>-</u>	<u>-</u>	<u>1,138,487</u>	<u>1,259,418</u>
TOTAL PROPERTY AND EQUIPMENT	<u>1,138,487</u>	<u>-</u>	<u>-</u>	<u>1,138,487</u>	<u>1,259,418</u>
TOTAL ASSETS	<u>\$ 1,218,016</u>	<u>\$ 595,826</u>	<u>\$ 25,537</u>	<u>\$ 1,839,379</u>	<u>\$ 1,949,029</u>
LIABILITIES AND FUND BALANCES					
<u>CURRENT LIABILITIES</u>					
Accounts Payable	\$ 16,438	\$ -	\$ -	\$ 16,438	\$ 13,765
Accrued Expenses	52,217	-	-	52,217	55,008
Accrued Unemployment Tax Payable	4,515	-	-	4,515	4,138
Accrued Payroll Liability	244	-	-	244	314
Room Rental Deposits	3,940	-	-	3,940	3,190
Prepaid RV Storage Fees	30,200	-	-	30,200	22,560
Checks Written in Excess of Cash Balance	14,959	-	-	14,959	-
Current Maturities of Long-Term Debt	67,034	-	-	67,034	64,732
TOTAL CURRENT LIABILITIES	<u>189,547</u>	<u>-</u>	<u>-</u>	<u>189,547</u>	<u>163,707</u>
<u>LONG-TERM LIABILITIES</u>					
Long-Term Debt	<u>75,314</u>	<u>-</u>	<u>-</u>	<u>75,314</u>	<u>142,348</u>
TOTAL LONG-TERM LIABILITIES	<u>75,314</u>	<u>-</u>	<u>-</u>	<u>75,314</u>	<u>142,348</u>
TOTAL LIABILITIES	<u>264,861</u>	<u>-</u>	<u>-</u>	<u>264,861</u>	<u>306,055</u>

See accompanying notes to the financial statements.

(CONTINUED)

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
BALANCE SHEET (CONTINUED)
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2015)**

LIABILITIES AND FUND BALANCES (CONTINUED)	OPERATING FUND	REPLACEMENT FUND	CAPITAL FUND	2016 TOTAL	2015 TOTAL
<u>FUND BALANCES</u>					
Operating Fund	953,155	-	-	953,155	1,063,278
Replacement Fund	-	595,826	-	595,826	579,696
Capital Fund	-	-	25,537	25,537	-
TOTAL FUND BALANCES	953,155	595,826	25,537	1,574,518	1,642,974
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,218,016	\$ 595,826	\$ 25,537	\$ 1,839,379	\$ 1,949,029

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, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	OPERATING FUND	REPLACEMENT FUND	CAPITAL FUND	2016 TOTAL	2015 TOTAL
REVENUES					
FOSHA Assessment Income	\$ 868,344	\$ -	\$ -	\$ 868,344	\$ 842,980
Condominium Assessment Income	503,430	-	-	503,430	488,725
Sun Villa Apartments Income	55,077	-	-	55,077	53,502
FOSHA Lease Income	6,000	-	-	6,000	6,000
Room Rental Income	18,273	-	-	18,273	5,610
RV Storage Space Rental Income	28,492	-	-	28,492	30,828
RV Storage Space Administrative Fee	5,530	-	-	5,530	4,440
Counter Services	3,452	-	-	3,452	3,346
Counter Sales	225	-	-	225	261
Vending Pop Sales	0	-	-	-	-
Resident Sales Income	13,286	-	-	13,286	21,776
Sales Commissions	2,140	-	-	2,140	2,470
Recycling	4,445	-	-	4,445	3,869
Vending Water Income	3,736	-	-	3,736	4,777
Activities Income	149,745	-	-	149,745	127,591
Bingo Income	53,014	-	-	53,014	53,014
Fishing Permit	270	-	-	270	300
Stamp Sales Income	104,322	-	-	104,322	113,971
Post Office Income	10,468	-	-	10,468	12,671
Impact Fee	-	257,250	-	257,250	270,375
Veteran's Memorial Contribution	2,240	-	-	2,240	19,950
Interest Income	-	1,914	-	1,914	1,731
Miscellaneous Income	234	-	-	234	2,353
TOTAL REVENUES	1,832,723	259,164	-	2,091,887	2,070,540
EXPENSES					
General and Administrative	39,125	-	-	39,125	37,217
Taxes	4,768	-	-	4,768	5,064
Office Expenses	24,641	-	-	24,641	53,345
Insurance Expenses	29,436	-	-	29,436	30,870
Miscellaneous Sales Expenses	6,600	-	-	6,600	8,878
Depreciation Expense	136,187	-	-	136,187	135,635
Loss on Disposal of Fixed Assets	-	-	-	-	10,589

(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, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CAPITAL FUND</u>	<u>2016 TOTAL</u>	<u>2015 TOTAL</u>
EXPENSES (CONTINUED)					
Activities Expenses	88,169	-	-	88,169	91,355
Bingo Expenses	76,305	-	-	76,305	51,239
Wages and Salary	343,234	-	-	343,234	338,979
Personnel Expenses and Taxes	66,286	-	-	66,286	64,451
Repairs and Maintenance	53,594	-	-	53,594	101,394
Equipment Expenses	27,483	-	-	27,483	32,433
Janitorial	55,602	-	-	55,602	41,970
Pool Expenses	50,905	-	-	50,905	43,240
Utilities	163,510	-	-	163,510	145,962
RV Loan Debt Service	6,216	-	-	6,216	8,439
Grounds Maintenance	72,904	-	-	72,904	78,339
Security Expenses	436,022	-	-	436,022	415,449
Reserve Expenditures	-	375,034	-	375,034	188,147
Cost of Goods Sold, Postage	104,322	-	-	104,322	113,971
TOTAL EXPENSES	<u>1,785,309</u>	<u>375,034</u>	<u>-</u>	<u>2,160,343</u>	<u>1,996,966</u>
EXCESS REVENUES (EXPENSES)	47,414	(115,870)	-	(68,456)	73,574
FUND BALANCES, BEGINNING OF YEAR	1,063,278	579,696	-	1,642,974	1,569,400
TRANSFERS BETWEEN FUNDS					
Contributions to Reserves	(132,000)	132,000	-	-	-
Contributions to Capital	(25,537)	-	25,537	-	-
Capitalized Fixed Asset Transfer	-	-	-	-	-
Net Transfers	<u>(157,537)</u>	<u>132,000</u>	<u>25,537</u>	<u>-</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 953,155</u>	<u>\$ 595,826</u>	<u>\$ 25,537</u>	<u>\$ 1,574,518</u>	<u>\$ 1,642,974</u>

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CAPITAL FUND</u>	<u>2016 TOTAL</u>	<u>2015 TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Excess Revenues (Expenses)	\$ 47,414	\$ (115,870)	\$ -	\$ (68,456)	\$ 73,574
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities					
Loss on Fixed Asset Disposal	-	-	-	-	10,589
Depreciation Expense	136,187	-	-	136,187	135,635
(Increase)/Decrease In					
Assessments Receivable	(7,477)	-	-	(7,477)	(2,571)
Prepaid Insurance	597	-	-	597	(1,420)
Postage Inventory	(6,427)	-	-	(6,427)	3,130
Access Card Inventory	4,266	-	-	4,266	4,708
Increase/(Decrease) In					
Accounts Payable	5,172	(2,499)	-	2,673	13,357
Accrued Expenses	(2,791)	-	-	(2,791)	3,061
Unemployment Tax Payable	377	-	-	377	453
Accrued Payroll Liability	(70)	-	-	(70)	(6)
Room Rental Deposits	750	-	-	750	3,190
Prepaid RV Storage Fees	7,640	-	-	7,640	(2,152)
Checks Written in Excess of Cash Balance	14,959	-	-	14,959	-
Net Cash Provided (Used) by Operating Activities	<u>200,597</u>	<u>(118,369)</u>	<u>-</u>	<u>82,228</u>	<u>241,548</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Purchase of Property and Equipment	(15,256)	-	-	(15,256)	(127,344)
Proceeds from the Sale of Property and Equipment	-	-	-	-	1,340
Net Cash Provided (Used) by Investing Activities	<u>(15,256)</u>	<u>-</u>	<u>-</u>	<u>(15,256)</u>	<u>(126,004)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Allocation to Reserves	(132,000)	132,000	-	-	-
Allocation to Capital	(25,537)	-	25,537	-	-
Capitalized Fixed Asset Transfers	-	-	-	-	-
Loan Payments for RV Storage	(64,732)	-	-	(64,732)	(62,508)
Net Cash Provided (Used) by Financing Activities	<u>(222,269)</u>	<u>132,000</u>	<u>25,537</u>	<u>(64,732)</u>	<u>(62,508)</u>

(CONTINUED)

See accompanying notes to the financial statements.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2015)**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>CAPITAL FUND</u>	<u>2016 TOTAL</u>	<u>2015 TOTAL</u>
NET INCREASE (DECREASE) IN CASH	(36,928)	13,631	25,537	2,240	53,036
CASH BALANCE, BEGINNING OF YEAR	<u>79,958</u>	<u>582,195</u>	<u>-</u>	<u>662,153</u>	<u>609,117</u>
CASH BALANCE, END OF YEAR	<u>\$ 43,030</u>	<u>\$ 595,826</u>	<u>\$ 25,537</u>	<u>\$ 664,393</u>	<u>\$ 662,153</u>
<u>SUPPLEMENTARY INFORMATION</u>					
Income Taxes Paid	\$ 261				\$ 306
Interest Paid	\$ 6,216				\$ 8,439

See accompanying notes to the financial statements.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

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.

Capital Fund

The Capital Fund is used to account for the accumulation of funds for capital improvement projects.

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.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 and access cards) 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 January 30, 2017, which is the date the financial statements were available to be issued.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by fund category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

NOTE 3 – 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 \$582 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 4 - CASH AND CASH EQUIVALENTS

As of December 31, 2016, the cash and cash equivalent balances were as follows:

	2016		
	Operating	Reserve and Other	Total
General Checking Accounts	\$ -	\$ 344,941	\$ 344,941
Post Office Account	10,978	-	10,978
Bingo Account	29,852	-	29,852
Capital Fund Account	-	25,537	25,537
Money Market Accounts	-	250,885	250,885
Petty Cash	2,200	-	2,200
Total	\$ 43,030	\$ 621,363	\$ 664,393

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2016, represent assessments due. Accounts Receivable greater than 90 days overdue at December 31, 2016, were \$0. For the year ended December 31, 2016, no allowance for doubtful accounts was recorded. Bad debt expense for the year ended December 31, 2016 totaled \$0.

Receivables consisted of the following at December 31, 2016:

	Total Due
Sun Villa Apartment Income	\$ 5,282
FOSHA	4,558
Parcel 9 Phase 2	4,074
Total Gross Receivables	13,914
Less: Allowance for Bad Debt	-
Total Net Receivables	\$ 13,914

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

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 is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2016. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal and state income tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association files Form 1120, which has graduated effective tax rates of 15% to 39% that are applied to net taxable income. The state tax rate that is applied to net taxable income is 5.5%. The Association had a federal and state tax liability of \$0 and \$50, for the year ended December 31, 2016. Federal and state income taxes disbursed in the current year for the prior year was \$0 and \$50, respectively.

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, 2016.

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, 2016.

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 2014, or by Arizona state tax authorities for years before 2013.

FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

NOTE 9 – 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 for the year ended December 31, 2016 and 2015 was \$7,619 and \$10,525, respectively.

NOTE 10 – PROPERTY AND EQUIPMENT

During the year ended December 31, 2016, the Association added \$15,256 of capitalized assets to the depreciation schedule, and did not dispose of any assets from the depreciation schedule. Depreciable Property and Equipment in use, as of December 31, 2016, consisted of the following:

Property and Equipment:	
Building	\$ 945,720
Improvements	1,132,971
Furniture and Fixtures	237,926
Machinery and Equipment	75,422
Vehicles	15,850
RV Storage Facility	326,833
Miscellaneous	<u>79,954</u>
Total	2,814,676
Less: Accumulated Depreciation	<u>(1,676,189)</u>
Net Property and Equipment	<u>\$ 1,138,487</u>

Depreciation expense for the years ended December 31, 2016 and 2015, totaled \$136,187 and \$135,635, respectively.

NOTE 11 – 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 September 1, 2016, 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, 2016, funds accumulated for this purpose were \$595,826.

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)**

NOTE 12 – NOTE PAYABLE

In January of 2014, the Association entered into a loan agreement with Fountain of the Sun Homeowners Association. The purpose of the financing agreement was to fund the costs associated with the purchase and use of an RV Storage Facility, for the members of the Association. The Association signed a 60 month promissory note for \$325,000, as stated in the loan documents, with an annual percentage rate of 3.5%. The note is secured by real estate in a Deed of Trust, Security Agreement and Agreement of Rents executed with this note.

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.

As of December 31, 2016, the principal loan balance was \$142,348. For the year ended December 31, 2016, the Association made payments toward the note totaling \$70,948, of which \$64,732 was applied towards reducing the principal and \$6,216 was paid in interest.

Total Debt	\$ 142,348
Less: Current Portion	<u>(67,034)</u>
Total Long-Term Debt	<u>\$ 75,314</u>

The following is the schedule of the long-term portion of the future minimum payments due under the terms of the promissory note payable.

Maturities of long term debt are as follows:

Years ending December 31,	
2018	\$ 69,418
2019	<u>5,896</u>
Total	<u>\$ 75,314</u>

NOTE 13 – LEASE INCOME

On December 10, 2014, the Association entered into a three year lease agreement with Fountain of the Sun Homeowners Association for the purpose of renting the office space located in the administrative building. Under the terms of the lease agreement, the tenant agrees to pay the Association \$6,000 annually. Approximate future minimum lease payments to be received under the lease agreement as of December 31, 2016 are:

Years Ending December 31,	
2017	<u>\$ 6,000</u>
Total Remaining	<u>\$ 6,000</u>

For the year ended December 31, 2016, the Association received \$6,000 in lease income.

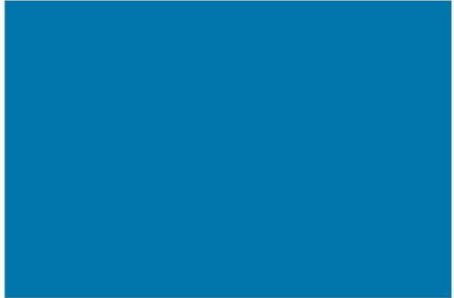
FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

NOTE 14 – COMPENSATED BALANCES

Regular, full-time employees of the Association are entitled to certain employee benefits after 90 days of continuous employment.

Vacation time is accrued per pay period and based on the length of service of the employee. Up to 40 hours of vacation time can be carried over to a new calendar year. Any unused, accrued vacation time is paid out to employees at the time of termination. For the year ended December 31, 2016, the Association had recorded accrued vacation of \$4,384.

Full time employees begin accruing paid personal time after 90 days of employment. Sick time is accrued at a rate of 1 hour per week worked (6.5 days per year).



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, 2016**

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 September 1, 2016. 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, 2016
Asphalt	5.06 to 34.06	\$ 1,461,985	\$ -
Asphalt - Overlay	10.03 to 16.03	115,136	-
Asphalt - Seal Coat	.03 to 5.06	149,355	-
Bathroom	9.03 to 18.03	31,500	-
Concrete	1.06	149,960	-
Courts	3.03	5,000	-
Decks	11.1	49,000	-
Doors	3.06 to 16.07	19,580	-
Equipment	1.03 to 23.04	315,050	-
Equipment - Pool/Spa	3.03 to 14.09	45,500	-
Equipment - Restaurant	.03 to 26.08	45,950	-
Fence	24.03 to 26.03	6,110	-
Fences, Walls & Gates	2.03 to 17.03	29,372	-
Fixtures	3.03 to 27.04	48,250	-
Floor Covering	.03 to 22.04	110,404	-
Furniture	.03 to 19.07	65,200	-
HVAC Equipment	4.03 to 10.03	102,450	-
Landscaping	17.06	65,000	-
Lighting	3.06 to 10.06	22,305	-
Paint	11.02	11,050	-
Recreation Surfaces	3.03 to 5.11	10,512	-
Refurbish	4.09 to 21.09	30,800	-
Remodeling	8.06 to 19.03	40,000	-
Roofing Systems	6.03 to 44.09	410,724	-
Signs	1.06 to 19.06	27,000	-
Structure	.03 to 19.09	33,900	-
Vehicles	3.03 to 7.05	21,000	-
Window Coverings	4.03 to 18.03	18,000	-
Unallocated		-	595,826
Total		\$ 3,440,093	\$ 595,826

See independent auditor's report.