



**FOUNTAIN OF THE SUN COMMUNITY  
ASSOCIATION**

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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<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>CAPITAL<br/>FUND</u> | <u>2016<br/>TOTAL</u> | <u>2015<br/>TOTAL</u> |
|---|---------------------------|-----------------------------|-------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>   |                           |                             |                         |                       |                       |
| <b><u>CURRENT ASSETS</u></b>  |                           |                             |                         |                       |                       |
| 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                 |
| <b>TOTAL CURRENT ASSETS</b>   | <u>79,529</u>             | <u>595,826</u>              | <u>25,537</u>           | <u>700,892</u>        | <u>689,611</u>        |
| <b><u>PROPERTY AND EQUIPMENT</u></b>  |                           |                             |                         |                       |                       |
| Property and Equipment, Net of Accumulated<br>Depreciation of \$1,676,189 and \$1,540,002, respectively | 1,138,487                 | -                           | -                       | 1,138,487             | 1,259,418             |
| <b>TOTAL PROPERTY AND EQUIPMENT</b>   | <u>1,138,487</u>          | <u>-</u>                    | <u>-</u>                | <u>1,138,487</u>      | <u>1,259,418</u>      |
| <b>TOTAL ASSETS</b>   | <u>\$ 1,218,016</u>       | <u>\$ 595,826</u>           | <u>\$ 25,537</u>        | <u>\$ 1,839,379</u>   | <u>\$ 1,949,029</u>   |
| <b>LIABILITIES AND FUND BALANCES</b>  |                           |                             |                         |                       |                       |
| <b><u>CURRENT LIABILITIES</u></b>   |                           |                             |                         |                       |                       |
| 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                |
| <b>TOTAL CURRENT LIABILITIES</b>  | <u>189,547</u>            | <u>-</u>                    | <u>-</u>                | <u>189,547</u>        | <u>163,707</u>        |
| <b><u>LONG-TERM LIABILITIES</u></b>   |                           |                             |                         |                       |                       |
| Long-Term Debt  | 75,314                    | -                           | -                       | 75,314                | 142,348               |
| <b>TOTAL LONG-TERM LIABILITIES</b>  | <u>75,314</u>             | <u>-</u>                    | <u>-</u>                | <u>75,314</u>         | <u>142,348</u>        |
| <b>TOTAL LIABILITIES</b>  | <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)**

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

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)**

|                                     | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>CAPITAL<br/>FUND</u> | <u>2016<br/>TOTAL</u> | <u>2015<br/>TOTAL</u> |
|-------------------------------------|---------------------------|-----------------------------|-------------------------|-----------------------|-----------------------|
| <b>REVENUES</b>                     |                           |                             |                         |                       |                       |
| 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                 |
| <b>TOTAL REVENUES</b>               | <u>1,832,723</u>          | <u>259,164</u>              | <u>-</u>                | <u>2,091,887</u>      | <u>2,070,540</u>      |
| <b>EXPENSES</b>                     |                           |                             |                         |                       |                       |
| 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<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>CAPITAL<br/>FUND</u> | <u>2016<br/>TOTAL</u> | <u>2015<br/>TOTAL</u> |
|---|---------------------------|-----------------------------|-------------------------|-----------------------|-----------------------|
| <b>EXPENSES (CONTINUED)</b>                 |                           |                             |                         |                       |                       |
| 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>      |
| <b>EXCESS REVENUES (EXPENSES)</b>           | 47,414                    | (115,870)                   | -                       | (68,456)              | 73,574                |
| <b>FUND BALANCES,<br/>BEGINNING OF YEAR</b> | 1,063,278                 | 579,696                     | -                       | 1,642,974             | 1,569,400             |
| <b>TRANSFERS BETWEEN FUNDS</b>              |                           |                             |                         |                       |                       |
| 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>              |
| <b>FUND BALANCES, END OF YEAR</b>           | <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<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>CAPITAL<br/>FUND</u> | <u>2016<br/>TOTAL</u> | <u>2015<br/>TOTAL</u> |
|---|---------------------------|-----------------------------|-------------------------|-----------------------|-----------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>  |                           |                             |                         |                       |                       |
| Excess Revenues (Expenses)  | \$ 47,414                 | \$ (115,870)                | \$ -                    | \$ (68,456)           | \$ 73,574             |
| Adjustments to Reconcile Excess Revenues<br>(Expenses) to Cash Provided (Used)<br>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>        |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>  |                           |                             |                         |                       |                       |
| 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>      |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>  |                           |                             |                         |                       |                       |
| 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<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>CAPITAL<br/>FUND</u> | <u>2016<br/>TOTAL</u> | <u>2015<br/>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>     |
| <b><u>SUPPLEMENTARY INFORMATION</u></b> |                           |                             |                         |                       |                       |
| 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<br>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                     | <u>\$ 43,030</u> | <u>\$ 621,363</u>    | <u>\$ 664,393</u> |

**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:

|                              |                  |
|------------------------------|------------------|
|                              | <u>Total Due</u> |
| 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        | <u>\$ 13,914</u> |

**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION**  
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**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  
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**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.



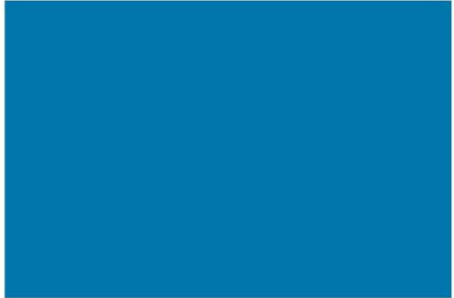
**FOUNTAIN OF THE SUN COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
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**NOTE 14 – COMPENSATED BALANCES**

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<br>Life (Years) | Estimated Current<br>Replacement<br>Cost | Replacement<br>Fund Balance<br>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  |
| <b>Total</b>           |                           | <b>\$ 3,440,093</b>                      | <b>\$ 595,826</b>                                |

See independent auditor's report.