

CRYSTAL BAY HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:

CRYSTAL BAY HOMEOWNERS ASSOCIATION

Chandler, Arizona

We have audited the accompanying financial statements of Crystal Bay Homeowners Association (an Arizona corporation), which comprises the statement of assets, liabilities, and fund balances - cash basis as of December 31, 2017, and the related statement of revenues and expenses and changes in fund balances - cash basis 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 this financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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 assets, liabilities, and fund balances of Crystal Bay Homeowners Association as of December 31, 2017, and its revenues and expenses and changes in fund balances for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Monsperger Patterson & McMullin, PLLC

Tempe, Arizona
June 14, 2018

CRYSTAL BAY HOMEOWNERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITES AND FUND BALANCES - CASH BASIS
DECEMBER 31, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ <u>39,612</u>	\$ <u>204,777</u>	\$ <u>244,389</u>
TOTAL ASSETS	<u>39,612</u>	<u>204,777</u>	<u>244,389</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
FUND BALANCES	<u>39,612</u>	<u>204,777</u>	<u>244,389</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>39,612</u>	\$ <u>204,777</u>	\$ <u>244,389</u>

The Accompanying Notes are an Integral Part
of These Financial Statements.

CRYSTAL BAY HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Homeowner Assessments	\$ 123,953	\$ 30,720	\$ 154,673
Collection Income	6,876	-	6,876
Interest Income	20	339	359
	<u>130,849</u>	<u>31,059</u>	<u>161,908</u>
EXPENSES			
Administrative	28,645	-	28,645
Utilities	14,993	-	14,993
Repair and Maintenance	69,965	-	69,965
Parts and Supplies	3,248	-	3,248
Major Repairs and Replacements	-	2,994	2,994
	<u>116,851</u>	<u>2,994</u>	<u>119,845</u>
EXCESS REVENUES (EXPENSES)	13,998	28,065	42,063
Fund Balances Beginning of Year	<u>40,614</u>	<u>161,712</u>	<u>202,326</u>
Transfer between funds	<u>(15,000)</u>	<u>15,000</u>	<u>-</u>
FUND BALANCES END OF YEAR	<u>\$ 39,612</u>	<u>\$ 204,777</u>	<u>\$ 244,389</u>

The Accompanying Notes are an Integral Part
of These Financial Statements.

**CRYSTAL BAY HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

Nature of Operations

Crystal Bay Homeowners Association was incorporated on August 2, 1994 in the State of Arizona. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Chandler, Arizona and consists of 169 residential lots. The Board of Directors has engaged Kinney Management Services as the managing agent for the association.

Method of Accounting

The Association's general records and the financial statements are prepared using the cash basis method of accounting. Consequently, revenues (assessments and other income) are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Accordingly, accounts receivable due from homeowners, deferred revenues and accrued expenses are not included in the financial statements.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. Monies from this fund are not generally available for operating purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all cash in bank accounts, money market accounts, cash on hand, and certificate of deposits, with original maturities of less than three months, to be cash equivalents. The Association maintains cash and cash equivalents at various financial institutions which, at times, could exceed federally insured amounts. Management evaluates cash positions on a regular basis in order to mitigate the risk. As of December 31, 2017, there were no deposits in excess of FDIC insurance limits.

**CRYSTAL BAY HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS, (CONTINUED)

Income Taxes

The Association filed its income tax returns as a homeowners' association in accordance with Internal Revenue Service Code Section 528 for the current fiscal year. 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 at the rate of 30% on its nonexempt function income, which includes interest income.

Arizona income tax is based on the federal taxable income at approximately 4.9% after adding any Form 1120-H \$100 exemption. There is a minimum tax of \$50.

Federal income taxes disbursed in the current fiscal year include \$0 for the prior fiscal year.

Arizona income taxes disbursed in the current fiscal year include \$50 for the prior fiscal year.

As of December 31, 2017, Federal and State income tax returns for years subsequent to 2013 are subject to examination.

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 IRS examination. Management believes that it has no uncertain tax position for the year ending December 31, 2017.

Common Property

The Common Property of the Association consists of land and land improvements. Real property and common areas acquired from the developer are owned by the individual homeowners in common and not by the Association. Accordingly, the Common Property has not been reflected in the financial statement. In addition, as noted above, these financial statements are presented on the cash basis of accounting. Under the cash basis of accounting, fixed assets are not reflected in the financial statement.

Subsequent Event

Management has evaluated subsequent events through June 14, 2018, the date the financial statement was available to be issued.

NOTE 2 – ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. As noted above, these financial statements are presented on the cash basis of accounting. Accordingly, unpaid member assessments have not been reflected in the financial statements.

**CRYSTAL BAY HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has established a reserve fund to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate \$204,777 at December 31, 2017, are held in separate accounts and are generally not available for operating purposes.

In 2015, the Association's board of directors engaged Reserve Studies, Inc. to conduct a study to estimate the remaining useful lives and replacement costs of the common property components.

Actual expenditures, however, may vary from the estimated funding amounts determined by the Board of Directors and the reserve study, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 4 – CONCENTRATIONS

The Association's annual assessment revenue is subject to significant concentration of credit risk given that the revenue is received from Association members, within a relatively small geographic area.

NOTE 5 – RELATED PARTY TRANSACTIONS

As noted above, the Board of Directors has engaged Kinney Management Services as the managing agent for the Association. The Association has also engaged Kinney Management's collection division to provide collection services. Kinney's collection division operates under the name Sentinel Servicing and is licensed by the Arizona State Banking Department.

The Association has contracted with a vendor that is partially owned by a board member to provide maintenance for the various pumps onsite. During the year ended December 31, 2017, the association paid this vendor \$5,251.



Jeffrey C. McMullin
James A. Wraith
Bradley W. Enos
Diane R. Hayes
Stephen G. Hale
LaDawn Setser
Wendy M. Whittard

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of:

CRYSTAL BAY HOMEOWNERS ASSOCIATION

Chandler, Arizona

Opinion on Supplementary Schedule of Expenses

We have audited the financial statements of Crystal Bay Homeowners Association as of and for the year ended December 31, 2017, and our report thereon dated June 14, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenses – cash basis on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 10 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, which is the representation of management, 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 with sufficient evidence to express an opinion or provide any assurance.

Mansperger Patterson & McMullin, PLC

Tempe, Arizona
June 14, 2018

SCHEDULE I

**CRYSTAL BAY HOMEOWNERS ASSOCIATION
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ADMINISTRATIVE			
Management Fees	\$ 12,000	\$ -	\$ 12,000
Legal	3,544	-	3,544
Insurance	3,130	-	3,130
Collections	2,828	-	2,828
Audit	2,785	-	2,785
Meeting Room	1,023	-	1,023
Community Notices/Newsletter	730	-	730
Coupons	700	-	700
Postage	633	-	633
Lien Expense	480	-	480
Record Storage	336	-	336
Website	300	-	300
Permits/Licenses/Taxes	106	-	106
Bank Charges	50	-	50
	<u>28,645</u>	<u>-</u>	<u>28,645</u>
UTILITIES			
Electricity	14,761	-	14,761
Water	232	-	232
	<u>14,993</u>	<u>-</u>	<u>14,993</u>
REPAIRS AND MAINTENANCE			
Landscape Maintenance	29,700	-	29,700
Tree Trimming	16,357	-	16,357
Lake Contract	10,580	-	10,580
Irrigation Repairs	7,953	-	7,953
Pump/Vault Contract	1,857	-	1,857
Pest Control	1,392	-	1,392
Contract Services	1,173	-	1,173
Pump Repairs	683	-	683
Electrical and Lighting	270	-	270
	<u>69,965</u>	<u>-</u>	<u>69,965</u>
PARTS AND SUPPLIES			
Lake Chemicals	3,248	-	3,248
	<u>3,248</u>	<u>-</u>	<u>3,248</u>
MAJOR REPAIRS AND REPLACEMENTS			
Lake Pump/Equipment	-	2,994	2,994
	<u>-</u>	<u>2,994</u>	<u>2,994</u>
TOTAL EXPENSES	<u>\$ 116,851</u>	<u>\$ 2,994</u>	<u>\$ 119,845</u>

See Independent Auditors' Report
on Supplementary Information.

**CRYSTAL BAY HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017**

FUTURE MAJOR REPAIRS AND REPLACEMENTS

Reserve Data Analysis, Inc. conducted a study in March 2015 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on current replacement costs at the date of the study. Estimated current replacement costs and estimated remaining useful lives 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 information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives	Estimated Replacement Costs
Concrete Components	2	\$ 10,000
Walls	0 to 1	50,000
Fencing	0	12,500
Light Fixtures-Bollards, Replace	9	15,000
Lakes-Walls	2	3,000
Lakes-Liners	2	10,000
Lakes-Pump Replacement	9 to 19	79,560
Granite Replenishment A	9	10,824
Granite Replenishment B	10	5,186
Granite Replenishment C	1	5,638
Granite Replenishment D	2	14,883
Granite Replenishment E	3	8,569
Irrigation Controllers - Replace	3 to 8	3,000
Irrigation System - unfunded	3 to 8	38,400
Landscape Renovations	0 to 11	100,000
Monument Sign - Ceramic Tile	0	10,000
		\$ 376,560