

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
INDEX TO REVIEWED FINANCIAL STATEMENTS
December 31, 2016 and 2015

Independent accountant's review report	1
REVIEWED FINANCIAL STATEMENTS:	
Balance sheets	2
Statements of revenues, expenses, and changes in members' equity	3
Statements of cash flows	4
Notes to financial statements	5
SUPPLEMENTARY INFORMATION	
Supplementary information on future repairs and replacements	9



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
The Boulders at La Reserve Condominium Association

We have reviewed the accompanying financial statements of The Boulders at La Reserve Condominium Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on pages 9 through 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, 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 not audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

Report on 2015 Financial Statements

The financial statements of The Boulders at La Reserve Condominium Association as of December 31, 2015, were reviewed by other accountants whose report dated February 23, 2016, stated that based on their procedures, they are not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Addington & Associates, PLLC
ADDINGTON & ASSOCIATES, PLLC

April 3, 2017

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents - undesignated	\$ 78,868	\$ 54,712
Cash and cash equivalents - designated for future repairs and replacements	573,007	644,794
Investments	501,555	427,231
Assessments receivable, net	9,512	13,299
Other receivables	-	477
Prepaid insurance	1,586	328
Prepaid taxes	-	3
	<u> </u>	<u> </u>
Total assets	\$ <u>1,164,528</u>	\$ <u>1,140,844</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses	\$ 70,485	\$ 8,993
Taxes payable	-	22
Assessments received in advance	8,909	11,819
Deferred revenue	35,000	39,000
	<u> </u>	<u> </u>
Total liabilities	114,394	59,834
Members' equity		
Undesignated	523,062	312,190
Designated for future repairs and replacements	527,072	768,820
	<u> </u>	<u> </u>
	1,050,134	1,081,010
	<u> </u>	<u> </u>
Total liabilities and members' equity	\$ <u>1,164,528</u>	\$ <u>1,140,844</u>

See independent accountants' review report and notes to financial statements.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY
For the years ended December 31, 2016 and 2015

	2016	2015
Revenues:		
Association dues and assessments	\$ 465,638	\$ 465,638
Master Association assessments	63,302	62,957
Reserve fees	17,461	26,743
Utility assessments	70,172	77,287
Interest income	5,454	7,923
Other income	13,489	8,997
Total revenues	635,516	649,545
 General and administrative expenses		
Administrative	5,957	5,095
Management fees	28,800	28,800
Personnel related expense	53,063	54,725
Insurance	19,184	18,570
Professional fees	6,548	7,866
Protective services	6,614	3,397
Master HOA assessments	63,290	63,290
Utilities	116,572	122,964
Federal and state taxes	680	659
Bad debt expense	3,758	3,131
Total general and administrative expenses	304,466	308,497
 Repairs and maintenance expenses		
Maintenance and repairs	116,167	103,681
Major repairs and replacements	245,759	104,416
Total repairs and maintenance expenses	361,926	208,097
 Total expenses	666,392	516,594
 Excess (deficit) of revenues over expenses	(30,876)	132,951
 Members' equity, beginning of year	1,081,010	948,059
 Members' equity, end of year	\$ 1,050,134	\$ 1,081,010

See independent accountants' review report and notes to financial statements.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Excess (deficit) of revenues over expenses	\$ (30,876)	\$ 132,951
Adjustments to reconcile (deficit) of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in operating assets:		
Assessments receivable	3,787	(5,639)
Other receivables	477	975
Prepaid insurance	(1,258)	(328)
Prepaid taxes	3	10
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	61,492	(18,852)
Taxes payable	(22)	18
Assessments received in advance	(2,910)	(1,357)
Deferred revenue	(4,000)	(4,000)
 Total adjustments	 57,569	 (29,173)
 Net cash provided by operating activities	 26,693	 103,778
 Cash flows from investing activities:		
Proceeds from investments	61,653	290,889
Purchase of investments	(135,977)	(428,010)
 Net cash (used) in investing activities	 (74,324)	 (137,121)
 Net (decrease) in cash and cash equivalents	 (47,631)	 (33,343)
 Cash and cash equivalents, beginning of year	 699,506	 732,849
 Cash and cash equivalents, end of year	 \$ 651,875	 \$ 699,506
 Supplemental disclosures		
Cash paid for income tax	\$ 680	\$ 631

See independent accountants' review report and notes to financial statements.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. Organization

The Boulders at La Reserve Condominium Association (the Association) is incorporated as a nonprofit corporation in the State of Arizona for the purposes of operating and maintaining the common property of the Association. The Association consists of 240 residential units on approximately 14.404 acres located outside Tucson, Arizona. The Association began operations in 2006 under the control of the Developer and transferred control to the members in 2011.

The Association is part of a master area association, La Reserve. La Reserve began operations in 1984 as a nonprofit corporation in the State of Arizona for the purposes of developing the 1198 acres of land into various lots and parcels and to sell and convey such lots and parcels. La Reserve owns the land improvements which serve the complex and, as a result, the members pay an assessment to La Reserve to maintain streets and landscaping outside of the complex. The Association collects the master HOA assessment from each member on behalf of La Reserve and remits payment to La Reserve.

2. Summary of significant accounting policies

Financial statement presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP).

Revenue recognition

Revenues are recognized and reported when earned and when the amount and timing of the receipt of payment can be reasonably estimated. Revenues consist primarily of monthly member assessments.

Cash and cash equivalents

For purposes of reporting cash flows, the Association considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash on deposit with financial institutions, certificates of deposit, and money market accounts at December 31, 2016 and 2015.

Investments

Investments consist of various certificates of deposit ranging from one to two years. Certificates of deposit (CDs) are carried at fair market value.

Assessments receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to charge late fees and interest when assessments are 30 days or more delinquent. Receivables 70 days or more delinquent are turned over to an outside collection agency. The Association had delinquent assessments of \$2,495 and \$25,248 at December 31, 2016 and 2015, respectively.

The Board provides an allowance for doubtful collections based on a review of outstanding receivables, historical collection information, and existing economic conditions.

Any excess assessments at year end are retained by the Association for use in the succeeding year.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

2. Summary of significant accounting policies - continued

Property and equipment

Although title to the common area within the subdivision has been conveyed to the Association, real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the unit owners in common. The Association capitalizes at cost any personal property to which it has title.

Income taxes

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes. It does not qualify as a tax 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, non-membership transactions, and capital transactions.

The Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership 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 a subsequent tax year is subject to taxation.

U.S. generally accepted accounting principles prescribe rules for the recognition, measurement, classification, and disclosure in the financial statements of uncertain tax positions taken or expected to be taken in the Association's tax returns. The Board has determined that the Association does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Association's tax returns will not be challenged by the taxing authorities and that the Association will not be subject to additional tax, penalties, and interest as a result of such challenge. The Association's tax returns remain open for federal income tax examination for three years from the date of filing and four years for the State of Arizona.

Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

3. Cash and cash equivalents

At December 31, 2016 and 2015, cash and cash equivalents consisted of:

	2016	2015
Checking account - undesignated	\$ 78,868	\$ 54,712
Checking account – designated	0	75,000
Money market – designated	573,007	569,794
	\$ 651,875	\$ 699,506

The Association places its cash and cash equivalents with various financial institutions. Money market accounts are divided among numerous banks to mitigate the risk of balances above the Federal Deposit Insurance Corporation (FDIC) limit. At times the balances in the Association's accounts may exceed the FDIC insurance limit. The Board does not believe it is exposed to any significant credit risk on cash and cash equivalents. At December 31, 2016 and 2015, the Association's uninsured cash balance was \$70,006 and \$64, respectively.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

4. Investments and fair value

Investments are reported at fair value. GAAP establishes a hierarchy for fair value based on the transparency of the inputs used to determine fair value as of the measurement date. The valuation hierarchy is divided into three levels as follows:

- Level 1* - These are inputs represented by quoted prices in an active market for an identical asset. The Association's certificates of deposit are measured utilizing Level 1 inputs. Amounts held in certificates of deposits at banks were \$501,555 and \$427,231 at December 31, 2016 and 2015, respectively.
- Level 2*- These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Association does not have assets valued using Level 2 inputs.
- Level 3*- These inputs are unobservable and are used to measure fair value only when observable inputs are not available and include the reporting entity's own assumptions about value given market risk. The Association does not have assets valued using Level 3 inputs.

5. Assessments receivable

At December 31, 2016 and 2015, assessments receivable consists of the following:

	2016	2015
Assessments receivable	\$ 12,012	\$ 35,299
Less allowance for doubtful accounts	(2,500)	(22,000)
Assessments receivable, net	\$ 9,512	\$ 13,299

6. Future major repairs and replacements

The Association engaged an independent engineering firm that conducted a study in March 2017 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated and held in designated money market and CD accounts (the replacement fund). The study assumed an inflation rate of 3% and interest rate of 0.7%. Actual expenditures and earnings, however, may vary from the estimated amounts, and those variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are required, the Association has the right to increase regular assessments or levy special assessments subject to member approval, or it may delay major repairs and replacements until funds are available.

7. Concentrations

The Association receives 100% of its dues and assessments from the unit owners of The Boulders at La Reserve Condominium developments in the Tucson, Arizona vicinity.

8. Commitments and contingencies

The Association entered into a service agreement (the Agreement) in October 2010 with Comcast of Arizona, Inc. (Comcast), to install, operate, maintain and repair all facilities necessary to transmit broadband services to the Association. The Agreement provides for services for a term of 15 years with an automatic renewal for successive periods of 90 days unless either party shall provide the other with a minimum 60 day notice to terminate. As consideration for entering into the Agreement, Comcast paid the Association a per unit fee of \$250, for a total of \$60,000. In the event that the Agreement is terminated early, the Association shall refund a portion of the compensation based on the number of years remaining in the term of the Agreement. The Association had deferred revenue of \$35,000 and \$39,000 related to the Agreement at December 31, 2016 and 2015, respectively.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2016 and 2015

8. Commitments and contingencies - continued

The Association contracts with a professional property management company to maintain and operate the property and to provide administrative support. Paul Ash Management Company, LLC acts as agent for the Association, performing such services and duties as may be reasonably required in connection with management of the property. The contract is renewable on an annual basis each March and, absent cancellation, will renew automatically. Cancellation requires a 30 day written notice; however, there is an early termination fee if the contract is terminated prior to the normal renewal date. The contract was last renewed in March 2017, for an additional one year term. The contract requires a monthly fee of \$2,400, and the Association paid management fees of \$28,800 for each of the years ended December 31, 2016 and 2015.

The Association is subject to potential claims and litigation arising from the normal course of its operations. Legal action may be brought by unit holders and others seeking damages or seeking to void actions of the Association, including relief from covenant and restriction enforcement, assessments and fines. Management believes the ultimate outcome of any such action will not have a material adverse effect on the Association's financial position.

9. Related party and concentration

As of December 31, 2016, one homeowner owns 13 of the 240 units, which represents a 5.4% interest.

10. Date of management's review

In preparing the financial statements, the Association has evaluated events and transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through April 3, 2017, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2016

In March 2017, the board of directors had a formal reserve study performed that is effective January 1, 2017. The reserve study was used as a basis for reviewing and revising the estimates of remaining useful lives and replacement costs.

The following table presents significant information about the components of common property.

Components	Estimated useful life (years)	Estimated remaining useful life (years)	Estimated current replacement cost	Estimated fully funded balance
RECREATION AREA				
HVAC Units – Replace (A)	15	0	\$ 12,100	\$ 12,100
HVAC Units – Replace (B)	15	13	6,100	813
HVAC Units – Replace (C)	15	9	6,100	2,440
Carpet Floor – Replace	8	1	3,135	2,743
Tile Floor – Replace	30	8	34,900	25,593
Wood Floor – Replace	20	0	1,760	1,760
Cardio Room Flooring - Replace	20	0	3,240	3,240
Window Curtains – Replace	15	4	1,600	1,173
Interior Chandeliers - Replace	20	1	1,500	1,425
Wall Pictures – Replace	20	9	2,600	1,430
Furniture – Replace	10	1	17,500	15,750
Kitchen – Remodel	20	9	17,200	9,460
Appliances – Replace	12	1	6,300	5,775
Restrooms – Remodel	20	10	8,500	4,250
Fitness Equipment – Replace (A)	10	6	6,200	2,480
Fitness Equipment – Replace (B)	10	8	2,700	540
Fitness Equipment – Replace (C)	10	4	8,900	5,340
Free Weights – Replace	15	8	2,600	1,213
Strength Equipment - Replace	15	12	4,100	820
Fitness Mirrors - Replace	20	1	5,800	5,510
Key Card System – Replace	12	8	11,000	3,667
Fire Alarm Panel – Replace	15	4	2,000	1,467
Interior Surfaces - Repaint	10	1	8,500	7,650
Pool Deck – Resurface	16	4	10,800	8,100
Pool Deck – Seal/Repair	4	4	5,000	0
Fountain - Resurface	20	18	5,600	560
Pool - Resurface	10	6	11,300	4,520
Spa - Resurface	10	5	5,300	2,650
Pool Furniture - Replace	10	0	16,650	16,650
Furniture Cushions – Replace	5	4	5,900	1,180
Pool Fence – Replace	30	8	6,200	4,547
Pool Spa Filters - Replace	15	4	4,300	3,153
Pool Heater - Replace	8	4	3,100	1,550
Spa Heater - Replace	8	1	2,600	2,275
Pool/Spa Pumps - Replace	10	7	3,600	1,080
			254,685	162,904

See independent accountants' review report.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2016

Components	Estimated useful life (years)	Estimated remaining useful life (years)	Estimated current replacement cost	Estimated fully funded balance
COMMON AREA				
Decorative Concrete	30	8	50,000	36,667
Asphalt – Resurface	24	2	232,800	213,400
Asphalt – Seal/Repair	4	3	26,300	6,575
Bollard Lights - Replace	25	3	51,900	45,672
Mailboxes – Replace	20	0	21,000	21,000
Block Walls – Repair	25	24	9,100	364
Metal Fence – Replace	30	8	24,300	17,820
Wood Fence – Replace	15	4	2,300	1,687
Trash Gates – Replace	18	7	6,000	3,667
Monument – Refurbish	20	3	6,600	5,610
Block Walls – Repaint	6	5	5,900	983
Metal Fence – Repaint	4	3	2,900	725
Carports – Repaint	8	7	8,800	1,100
Carport Roofs – Repair	10	9	6,500	650
4” Watts Backflow – Replace	20	18	4,400	440
Drainage/Erosion – Control	10	0	17,000	17,000
			475,800	373,360
UNIT BUILDINGS				
Metal Surfaces – Repaint	5	4	27,575	5,515
Stucco Surfaces – Repaint	10	9	250,482	25,048
Wood Surfaces – Repaint	5	4	21,680	4,336
Finish Building Repaint Project		0	65,000	65,000
Flat Roof – Replace	15	4	421,900	309,393
Tile Roof - Refurbish	30	8	200,700	147,180
			987,337	556,472
TOTALS			\$ 1,717,822	\$ 1,092,736
Recommended minimum funding percentage				70%
Recommended minimum funding requirement				\$ 764,915
Amount currently funded				\$ 1,074,562
Percent currently funded				98.3%

See independent accountants’ review report.