

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
INDEX TO REVIEWED FINANCIAL STATEMENTS
December 31, 2017 and 2016

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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 sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in members’ equity and cash flows for the years 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 engagements 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 reviews, 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.

Addington & Associates, PLLC

ADDINGTON & ASSOCIATES, PLLC

April 13, 2018

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
BALANCE SHEETS
DECEMBER 31, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents - undesignated	\$ 117,647	\$ 78,868
Cash and cash equivalents - designated for future repairs and replacements	571,043	573,007
Investments	465,843	501,555
Assessments receivable, net	9,905	9,512
Other receivables	281	-
Prepaid insurance	<u>149</u>	<u>1,586</u>
Total assets	\$ <u>1,164,868</u>	\$ <u>1,164,528</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses	\$ 2,239	\$ 70,485
Assessments received in advance	15,164	8,909
Deferred revenue	<u>31,000</u>	<u>35,000</u>
Total liabilities	48,403	114,394
Members' equity		
Undesignated	79,579	34,907
Designated for future repairs and replacements	<u>1,036,886</u>	<u>1,015,227</u>
	<u>1,116,465</u>	<u>1,050,134</u>
Total liabilities and members' equity	\$ <u>1,164,868</u>	\$ <u>1,164,528</u>

See independent accountant's 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, 2017 and 2016

	2017	2016
Revenues:		
Association dues and assessments	\$ 465,638	\$ 465,638
Master Association assessments	63,302	63,302
Reserve fees	25,222	17,461
Utility assessments	70,889	70,172
Interest income	4,489	5,454
Other income	10,211	13,489
Total revenues	639,751	635,516
 General and administrative expenses		
Administrative	6,651	5,957
Management fees	28,800	28,800
Personnel related expense	52,399	53,063
Insurance	19,811	19,184
Professional fees	10,481	6,548
Protective services	4,588	6,614
Master HOA assessments	63,290	63,290
Utilities	118,689	116,572
Federal and state taxes	-	680
Bad debt expense	6,100	3,758
Total general and administrative expenses	310,809	304,466
 Repairs and maintenance expenses		
Maintenance and repairs	140,384	116,167
Major repairs and replacements	122,227	245,759
Total repairs and maintenance expenses	262,611	361,926
 Total expenses	573,420	666,392
 Excess (deficit) of revenues over expenses	66,331	(30,876)
 Members' equity, beginning of year	1,050,134	1,081,010
 Members' equity, end of year	\$ 1,116,465	\$ 1,050,134

See independent accountant's review report and notes to financial statements.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Excess (deficit) of revenues over expenses	\$ 66,331	\$ (30,876)
Adjustments to reconcile (deficit) of revenues over expenses to net cash provided by operating activities:		
(Increase) decrease in operating assets:		
Assessments receivable	(393)	3,787
Other receivables	(281)	477
Prepaid insurance	1,437	(1,258)
Prepaid taxes	-	3
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(68,246)	61,492
Taxes payable	-	(22)
Assessments received in advance	6,255	(2,910)
Deferred revenue	(4,000)	(4,000)
 Total adjustments	 (65,228)	 57,569
 Net cash provided by operating activities	 1,103	 26,693
 Cash flows from investing activities:		
Proceeds from investments	192,389	61,653
Purchase of investments	(156,677)	(135,977)
 Net cash provided (used) in investing activities	 35,712	 (74,324)
 Net increase (decrease) in cash and cash equivalents	 36,815	 (47,631)
 Cash and cash equivalents, beginning of year	 651,875	 699,506
 Cash and cash equivalents, end of year	 \$ 688,690	 \$ 651,875
 Supplemental disclosures		
Cash paid for income tax	\$ -	\$ 680

See independent accountant's review report and notes to financial statements.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016.

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 \$8,636 and \$2,495 at December 31, 2017 and 2016, 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, 2017 and 2016

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.

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2017 and 2016, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. No deferred tax liabilities or tax assets have been reported since the Association has no significant temporary differences between tax and book net income or loss.

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, 2017 and 2016, cash and cash equivalents consisted of:

	2017	2016
Checking account - undesignated	\$ 117,647	\$ 78,868
Money market – designated	571,043	573,007
	\$ 688,690	\$ 651,875

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, 2017 and 2016, the Association's uninsured cash balance was \$0 and \$70,006, respectively.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2017 and 2016

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 \$465,843 and \$501,555 at December 31, 2017 and 2016, 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, 2017 and 2016, assessments receivable consists of the following:

	2017	2016
Assessments receivable	\$ 18,505	\$ 12,012
Less allowance for doubtful accounts	(8,600)	(2,500)
Assessments receivable, net	\$ 9,905	\$ 9,512

6. Future major repairs and replacements

The Association engaged an independent engineering firm that conducted a study in February 2018 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 cash and cash equivalents and investment 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 \$31,000 and \$35,000 related to the Agreement at December 31, 2017 and 2016, respectively.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - continued
December 31, 2017 and 2016

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, 2017 and 2016.

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 owned 13 of the 240 units, which represented a 5.4% interest. All units were sold in 2017.

10. Prior year restatement

Members' equity "Designated for future repairs and replacements" was restated to \$1,015,227 from \$527,072 to reflect actual amounts accumulated for future repairs and replacements at December 31, 2016 less any amounts due for projects completed but not paid at December 31, 2016.

11. 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 13, 2018, 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, 2017

In February 2018, the board of directors had a formal reserve study performed that is effective January 1, 2018. 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	\$ 12,600	\$ 12,600
HVAC Units – Replace (B)	15	12	6,350	1,270
HVAC Units – Replace (C)	15	8	6,350	2,963
Carpet Floor – Replace	8	0	3,260	3,260
Tile Floor – Replace	30	7	36,330	27,853
Wood Floor – Replace	20	19	1,830	92
Cardio Room Flooring - Replace	20	19	3,370	169
Window Curtains – Replace	15	3	1,670	1,336
Interior Chandeliers - Replace	20	0	1,560	1,560
Wall Pictures – Replace	20	8	2,710	1,626
Furniture – Replace (A)	10	0	16,220	16,220
Furniture – Replace (B)	10	0	2,000	2,000
Kitchen – Remodel	20	8	17,910	10,746
Appliances – Replace	12	0	6,560	6,560
Restrooms – Remodel	20	9	8,850	4,868
Fitness Equipment – Replace (A)	10	5	6,450	3,225
Fitness Equipment – Replace (B)	10	7	2,810	843
Fitness Equipment – Replace (C)	10	3	9,270	6,489
Free Weights – Replace	15	7	2,710	1,445
Strength Equipment - Replace	15	11	4,270	1,139
Fitness Mirrors - Replace	20	0	6,040	6,040
Key Card System – Replace	12	7	11,450	4,771
Fire Alarm Panel – Replace	15	3	2,080	1,664
Interior Surfaces - Repaint	10	0	8,850	8,850
Pool Deck – Resurface	16	3	11,240	9,133
Pool Deck – Seal/Repair	4	7	5,210	0
Fountain - Resurface	20	17	5,830	875
Pool - Resurface	10	5	11,760	5,880
Spa - Resurface	10	4	5,520	3,312
Pool Furniture - Replace	10	9	16,700	1,670
Furniture Cushions – Replace	5	4	6,140	1,228
Pool Fence – Replace	30	7	6,450	4,945
Pool Spa Filters - Replace	15	3	4,480	3,584
Pool Heater - Replace	8	3	3,230	2,019
Spa Heater - Replace	8	7	2,300	288
Pool/Spa Pumps - Replace	10	6	3,750	1,500
			264,110	162,023

See independent accountant's review report.

THE BOULDERS AT LA RESERVE CONDOMINIUM ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2017

Components	Estimated useful life (years)	Estimated remaining useful life (years)	Estimated current replacement cost	Estimated fully funded balance
COMMON AREA				
Decorative Concrete	30	7	52,060	39,913
Asphalt – Resurface	24	1	242,370	232,271
Asphalt – Seal/Repair	4	2	27,380	13,690
Bollard Lights - Replace	25	2	54,030	49,708
Mailboxes – Replace	20	19	21,860	1,093
Block Walls – Repair	25	23	9,470	758
Metal Fence – Replace	30	7	25,300	19,397
Wood Fence – Replace	15	3	2,390	1,912
Trash Gates – Replace	18	6	6,250	4,167
Monument – Refurbish	20	2	6,870	6,183
Block Walls – Repaint	6	4	6,140	2,047
Metal Fence – Repaint	4	2	3,020	1,510
Carports – Repaint	8	6	9,160	2,290
Carport Roofs – Repair	10	8	6,670	1,354
4” Watts Backflow – Replace	20	17	4,580	687
Irrigation System – Retrofit	20	0	35,000	35,000
Drainage/Erosion – Control	10	0	30,000	30,000
			542,650	441,980
UNIT BUILDINGS				
Metal Surfaces – Repaint	5	3	27,992	11,197
Stucco Surfaces – Repaint	10	8	254,261	50,852
Wood Surfaces – Repaint	5	3	22,006	8,802
Flat Roof – Replace	15	3	428,259	342,607
Tile Roof - Refurbish	30	7	203,726	156,190
			936,244	569,648
TOTALS			\$ 1,743,004	\$ 1,173,651
Recommended minimum funding percentage				70%
Recommended minimum funding requirement				\$ 821,556
Amount currently funded				\$ 1,036,886
Percent currently funded				88%

See independent accountant’s review report.