



**LA SOLANA CONDOMINIUM  
ASSOCIATION**

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FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2016  
AND FOR THE YEAR THEN ENDED



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# LA SOLANA CONDOMINIUM ASSOCIATION

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To the Board of Directors of  
La Solana Condominium Association

Management is responsible for the accompanying financial statements of La Solana Condominium 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 in accordance with accounting principles generally accepted in the United States of America.

We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants.

We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

**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 page 11, 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 form of assurance on it.



Gilbert, Arizona  
February 21, 2017

**LA SOLANA CONDOMINIUM ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2016**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash	\$ 51,786	\$ 233,627	\$ 285,413
Certificates of Deposit	-	420,049	420,049
Accounts Receivable, Net of Allowance of \$3,780	5,653	-	5,653
Prepaid Insurance	22,544	-	22,544
Prepaid Expenses	1,532	-	1,532
	<b>TOTAL ASSETS</b>	<b>TOTAL ASSETS</b>	<b>TOTAL ASSETS</b>
	<b>\$ 81,515</b>	<b>\$ 653,676</b>	<b>\$ 735,191</b>
 <b>LIABILITIES</b>			
Accounts Payable	\$ 32,811	\$ 84,287	\$ 117,098
Accrued Expenses	2,529	-	2,529
Prepaid Assessments	35,008	-	35,008
	<b>TOTAL LIABILITIES</b>	<b>TOTAL LIABILITIES</b>	<b>TOTAL LIABILITIES</b>
	<b>70,348</b>	<b>84,287</b>	<b>154,635</b>
 <b>FUND BALANCES</b>			
Operating Fund	11,167	-	11,167
Replacement Fund	-	569,389	569,389
	<b>TOTAL FUND BALANCES</b>	<b>TOTAL FUND BALANCES</b>	<b>TOTAL FUND BALANCES</b>
	<b>11,167</b>	<b>569,389</b>	<b>580,556</b>
	<b>\$ 81,515</b>	<b>\$ 653,676</b>	<b>\$ 735,191</b>

See accompanying notes to the financial statements.

**LA SOLANA CONDOMINIUM ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Assessment Income	\$ 853,009	\$ -	\$ 853,009
Rental Income	5,376	-	5,376
Reserve Contributions	-	19,918	19,918
Interest Income	40	4,264	4,304
Collection Fees	515	-	515
Miscellaneous	4,585	-	4,585
Late Fees	285	-	285
Legal Fees	715	-	715
Small Claims Fee	137	-	137
Clubhouse Rental	750	-	750
Gate Openers/Remotes	150	-	150
Proximity Card	300	-	300
Keys	360	-	360
Collection Agency Fee	210	-	210
TOTAL REVENUES	<u>866,432</u>	<u>24,182</u>	<u>890,614</u>
<b>EXPENSES</b>			
<b>ADMINISTRATIVE</b>			
Accounting/Tax Preparation	850	-	850
Bank Charges	20	-	20
Collections	795	-	795
Legal Collections	852	-	852
Collection Agency Fee	210	-	210
Insurance	48,226	-	48,226
Legal General	771	-	771
Management	40,421	-	40,421
Miscellaneous Office	72	-	72
Office/Printing	6,068	-	6,068
Office Administrative Salary	32,345	-	32,345
Office Administrative Payroll Taxes	4,081	-	4,081
Permits/Licenses/Fees	505	-	505
Postage	647	-	647
Taxes - Income	2,529	-	2,529
Social Expenses	4,466	-	4,466
Website	600	-	600
TOTAL ADMINISTRATIVE	<u>143,458</u>	<u>-</u>	<u>143,458</u>
<b>UTILITIES</b>			
Electric	53,263	-	53,263
Gas	14,124	-	14,124
Sanitation - Refuse	6,324	-	6,324

(CONTINUED)

See accompanying notes to the financial statements.

**LA SOLANA CONDOMINIUM ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>UTILITIES (CONTINUED)</b>			
Sewer	66,162	-	66,162
Telephone	14,845	-	14,845
Water	37,864	-	37,864
Water - Fire Sprinklers	1,664	-	1,664
Water - Irrigation	35,275	-	35,275
<b>TOTAL UTILITIES</b>	<b>229,521</b>	<b>-</b>	<b>229,521</b>
<b>MAINTENANCE</b>			
Building - Exterior	39,805	-	39,805
Backflow Inspection	4,328	-	4,328
Clubhouse Maintenance Repair	16,270	-	16,270
Elevator Contract	35,454	-	35,454
Elevator Maintenance	1,184	-	1,184
Fire Sprinkler Inspection	2,464	-	2,464
Fire Sprinkler Monitoring	480	-	480
Annual Fire Inspection	1,824	-	1,824
Equipment	3,033	-	3,033
Clubhouse Cleaning	12,025	-	12,025
Landscape Extras	495	-	495
Landscape Contract/Supplies	86,100	-	86,100
Onsite Maintenance Staff	53,048	-	53,048
Onsite Maintenance Payroll	4,281	-	4,281
Exterminating	2,842	-	2,842
Termite Control	1,725	-	1,725
Pool/Spa Repairs	1,998	-	1,998
Pool/Spa Service Contract	5,280	-	5,280
<b>TOTAL MAINTENANCE</b>	<b>272,636</b>	<b>-</b>	<b>272,636</b>
<b>SUPPLIES</b>			
Common Area Supplies	5,545	-	5,545
Irrigation Supplies	3,420	-	3,420
Lighting Supplies	753	-	753
Pool/Spa Supplies	3,310	-	3,310
<b>TOTAL SUPPLIES</b>	<b>13,028</b>	<b>-</b>	<b>13,028</b>
<b>RESERVE EXPENSES</b>			
Carpet/Flooring	-	17,530	17,530
Elevator	-	339,387	339,387
Fire Alarm	-	34,436	34,436
Furniture	-	27,902	27,902
Irrigation Equipment	-	84,287	84,287

(CONTINUED)

See accompanying notes to the financial statements.

**LA SOLANA CONDOMINIUM ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>RESERVE EXPENSES (CONTINUED)</b>			
Paint - Building Exterior	-	12,665	12,665
Pool/Spa Equipment	-	2,563	2,563
<b>TOTAL RESERVE EXPENSES</b>	<u>-</u>	<u>518,770</u>	<u>518,770</u>
<b>TOTAL EXPENSES</b>	<u>658,643</u>	<u>518,770</u>	<u>1,177,413</u>
<b>EXCESS REVENUES (EXPENSES)</b>	207,789	(494,588)	(286,799)
<b>FUND BALANCES</b>			
<b>BEGINNING OF YEAR</b>	26,233	841,122	867,355
<b>FUND BALANCE TRANSFERS</b>	<u>(222,855)</u>	<u>222,855</u>	<u>-</u>
<b>FUND BALANCES</b>			
<b>END OF YEAR</b>	<u>\$ 11,167</u>	<u>\$ 569,389</u>	<u>\$ 580,556</u>

See accompanying notes to the financial statements.

**LA SOLANA CONDOMINIUM ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Excess Revenues (Expenses)	\$ 207,789	\$ (494,588)	\$ (286,799)
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities (Increase)/Decrease In			
Accounts Receivable	558	160	718
Prepaid Insurance	(22,544)	-	(22,544)
Prepaid Expenses	6,529	-	6,529
Increase/(Decrease) In			
Accounts Payable	12,401	84,287	96,688
Accrued Expenses	1,287	-	1,287
Prepaid Assessments	5,735	-	5,735
Net Cash Provided (Used) by Operating Activities	211,755	(410,141)	(198,386)
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Reinvested Interest	-	(3,395)	(3,395)
	-	(3,395)	(3,395)
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Transfers to Reserves	(222,855)	222,855	-
Change in Interfund Balance	2,563	(2,563)	-
Net Cash Provided (Used) by Financing Activities	(220,292)	220,292	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(8,537)	(193,244)	(201,781)
<b>CASH BALANCE, BEGINNING OF YEAR</b>	60,323	426,871	487,194
<b>CASH BALANCE, END OF YEAR</b>	\$ 51,786	\$ 233,627	\$ 285,413
<b><u>SUPPLEMENTARY INFORMATION</u></b>			
Income Taxes Paid	\$ 1,242		
Interest Paid	\$ -		

See accompanying notes to the financial statements.



**LA SOLANA CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 - NATURE OF THE ORGANIZATION**

La Solana Condominium Association (the "Association"), a non-stock condominium association, was incorporated on May 14, 2003, 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. As of December 31, 2016, the Association consisted of 252 condominium units. The Association is located in Surprise, Arizona. There is a Board of Directors elected by the member owners. The Board of Directors has engaged City Property Management, as the managing agent for the Association.

**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 use and accumulation of funds for future major repairs and replacements.

Assessments

Association members are subject to monthly assessments, which are used to pay for operating expenses, capital improvements, major repairs and future replacements.

Assessments Receivable

Receivables at December 31, 2016, represent assessments due and other fees levied by the Association. The Association's assessments receivable are secured via the real property assessed and every reasonable effort is applied in attempting to collect receivables. The Association may bring legal action against owners obligated to pay, or foreclose on the property, as it deems necessary, to collect assessments receivable.

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.

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.

**LA SOLANA CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

For statement of cash flows purposes, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturity dates of three months, or less, as cash and cash equivalents. Certificates of deposit and financial instruments, with original maturities, at date of purchase, of more than three months, are classified as investments.

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

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 individual unit owners in common and not by the Association. The Association capitalizes personal property to which it has title at cost. Any repairs or improvements paid by the Association have not been capitalized, and have been expensed for income tax purposes under special rules for condominium associations.

Certificates of Deposit

The Association invests in Certificates of Deposit that generally mature in three years or less. The Association intends to hold certificates of deposit until maturity. Certificates of deposit are recorded at cost.

Common Property

Certain land areas were contributed by the developer, upon completion of the project, at no cost to the Association, which are not reflected in the financial statements. The contributed areas consist of a clubhouse, roofs, streets, a pool and spa, fencing and gates, elevators, mailboxes, monument signs, landscape and landscape rights-of-way, which can never be sold or subdivided. The Association has not placed a value on these assets.

Date of Management's Review

Subsequent events have been evaluated through February 21, 2017, which is the date the financial statements were available to be issued.

**NOTE 3 – CERTIFICATES OF DEPOSIT**

At December 31, 2016, the Association had \$420,049 in certificates of deposit. The certificates of deposit outstanding at December 31, 2016, mature at various dates throughout 2017, and earn interest at rates ranging from .60% to 1.00%.

**LA SOLANA CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 4 - ACCOUNTS RECEIVABLE**

Bad debt expense for the year ended December 31, 2016, was \$0. The Association could incur losses, up to the full amount of the receivables. For the year ended December 31, 2016, an Allowance for Doubtful homeowner accounts in the amount of \$3,780 was established using the allowance method. Accounts receivable consisted of the following at December 31, 2016:

	Total Due	Over 90 Days
Residential Assessments	\$ 6,711	\$ 4,294
Fines and Reimbursements	2,722	878
Total Gross Receivables	9,433	5,172
Less: Reserve for Bad Debt	(3,780)	(3,780)
 Total Net Receivables	 \$ 5,653	 \$ 1,392

**NOTE 5 - ASSESSMENTS**

Association members are subject to annual assessments to provide funds for the Association's operating expenses and future major repairs and replacements. Assessments for each unit are determined by the member's percentage of ownership. The annual assessments for the year ended December 31, 2016, ranged from \$1,972.08 to \$3,846.36, payable in monthly increments of \$164.34 to \$320.53. Excess assessments at year end are retained by the Association for use in future periods.

**NOTE 6 - CONCENTRATION OF CREDIT RISK**

The Association's annual assessment revenue is subject to a significant concentration of credit risk, given that the revenue is received primarily within a small geographic area. 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 the owners did not comply with the terms of the Covenants, Conditions and Restrictions and collection efforts by the Association were 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.

**LA SOLANA CONDOMINIUM ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

**NOTE 7 – INCOME TAXES**

The Association files its income tax return as a homeowners association, in accordance with Internal Revenue Code Section 528. 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 on its investment income and other non-exempt function income. The Association had a federal and state tax liability of \$2,113 and \$416, respectively, for the year ended December 31, 2016. Federal and state income taxes disbursed in the current year for the prior year were \$1,019 and \$223, 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 IRS examination. 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.

**NOTE 9 - REPLACEMENT FUND**

The Association accumulates funds for future major repairs and replacements; at December 31, 2016, these funds were \$569,389 and are held in separate accounts and are generally not available for operating purposes.

In 2014, the Association’s Board of Directors engaged a firm to conduct a study to estimate the remaining useful lives and replacement costs of the common property components. The reserve study was completed on April 24, 2014. The Association is funding future major repairs and replacements based on the study’s estimates of current replacement costs. Funding considerations include amounts previously designated for future major repairs and replacements. 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.



**LA SOLANA CONDOMINIUM  
ASSOCIATION**

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**SUPPLEMENTARY  
INFORMATION**



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**LA SOLANA CONDOMINIUM ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
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 April 24, 2014. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property.

Component	Remaining Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance December 31, 2016
Streets	0 to 10	\$ 249,120	\$ -
Roofs	1 to 9	416,000	-
Golf Cart Parking	5	19,000	-
Painting	1 to 4	221,500	-
Fencing and Gates	14	14,860	-
Pool/Spa	0 to 22	83,380	-
Clubhouse	1 to 14	123,890	-
Fire Extinguishers	5	10,000	-
Elevators	1 to 28	1,295,000	-
Trash Compactor	2	5,000	-
Drywells	0	2,700	-
Granite Replenishment	4	24,375	-
Irrigation Controllers	0 to 3	88,914	-
Mailboxes	9	15,275	-
Monument Signs	8	4,250	-
Termite Treatment	7	18,000	-
Unallocated		-	569,389
Total		<u>\$ 2,591,264</u>	<u>\$ 569,389</u>