



**LAS TORRES HOMEOWNERS
ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018
AND FOR THE YEAR THEN ENDED



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LAS TORRES HOMEOWNERS ASSOCIATION

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To the Board of Directors of
Las Torres Homeowners Association

Management is responsible for the accompanying financial statements of Las Torres Homeowners Association (an Arizona corporation), which comprise the statement of assets, liabilities and members' equity – modified cash basis as of December 31, 2018, and the related statement of revenues, expenses and changes in members' equity – modified cash basis for the year then ended, and the related notes to the financial statements in accordance with the modified cash basis of accounting, and for determining that the modified cash basis of accounting is an acceptable financial reporting framework.

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.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash financial reporting framework, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information about future major repairs and replacements of common property, on page 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or provide any assurance on it.

Butler Hansen, PLC

Gilbert, Arizona
July 11, 2019

LAS TORRES HOMEOWNERS ASSOCIATION
STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY - MODIFIED CASH BASIS
DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 13,884	\$ 157,198	\$ 171,082
Utility Deposits	1,980	-	1,980
Interfund Balance	(5,327)	5,327	-
	<u>\$ 10,537</u>	<u>\$ 162,525</u>	<u>\$ 173,062</u>
TOTAL ASSETS			
	<u>\$ 10,537</u>	<u>\$ 162,525</u>	<u>\$ 173,062</u>
LIABILITIES			
Prepaid Assessments	\$ 3,575	\$ -	\$ 3,575
	<u>3,575</u>	<u>-</u>	<u>3,575</u>
TOTAL LIABILITIES			
	<u>3,575</u>	<u>-</u>	<u>3,575</u>
MEMBERS' EQUITY			
Operating Fund	6,962	-	6,962
Replacement Fund	-	162,525	162,525
	<u>6,962</u>	<u>162,525</u>	<u>169,487</u>
TOTAL MEMBERS' EQUITY			
	<u>6,962</u>	<u>162,525</u>	<u>169,487</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY			
	<u>\$ 10,537</u>	<u>\$ 162,525</u>	<u>\$ 173,062</u>

See accompanying notes to the financial statements.

**LAS TORRES HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
MEMBERS' EQUITY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES			
Assessment Income	\$ 99,302	\$ -	\$ 99,302
Interest Income	-	79	79
Other Income	317	-	317
TOTAL REVENUES	<u>99,619</u>	<u>79</u>	<u>99,698</u>
EXPENSES			
ADMINISTRATIVE			
Administrative Expenses	1,271	-	1,271
Income Tax	50	-	50
Audit/Tax Preparation	1,140	-	1,140
Permits & Licenses	495	-	495
Annual Report	65	-	65
Bank Charges	70	-	70
Insurance	7,486	-	7,486
Management Service	8,955	-	8,955
Postage/Copies	634	-	634
Miscellaneous	184	-	184
TOTAL ADMINISTRATIVE	<u>20,350</u>	<u>-</u>	<u>20,350</u>
UTILITIES			
Electric	5,281	-	5,281
Water - Hum Irriation	2,045	-	2,045
Water - Pool Meter	2,709	-	2,709
Water - Sun Irrigation	4,663	-	4,663
Trash Disposal Service	2,835	-	2,835
Gas/Propane	2,435	-	2,435
TOTAL UTILITIES	<u>19,968</u>	<u>-</u>	<u>19,968</u>
REPAIRS AND MAINTENANCE			
Maintenance and Repair	4,281	-	4,281
Sewer Repairs	1,340	-	1,340
Pool - Contract Service	3,328	-	3,328
Flat Roof Maintenance	500	-	500
Landscape Service	24,339	-	24,339
Pest Control	1,455	-	1,455
Tree Maintenance	200	-	200
Landscape/Other	1,000	-	1,000
TOTAL REPAIRS AND MAINTENANCE	<u>36,443</u>	<u>-</u>	<u>36,443</u>
PARTS AND SUPPLIES			
Pool Chemicals/Supplies	499	-	499
Irrigation Supplies	584	-	584
TOTAL PARTS AND SUPPLIES	<u>1,083</u>	<u>-</u>	<u>1,083</u>

See accompanying notes to the financial statements.

(CONTINUED)

**LAS TORRES HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
MEMBERS' EQUITY - MODIFIED CASH BASIS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
TOTAL EXPENSES	<u>77,844</u>	<u>-</u>	<u>77,844</u>
EXCESS REVENUES (EXPENSES)	21,775	79	21,854
MEMBERS' EQUITY			
BEGINNING OF YEAR	(2,113)	149,746	147,633
TRANSFERS BETWEEN FUNDS	<u>(12,700)</u>	<u>12,700</u>	<u>-</u>
MEMBERS' EQUITY			
END OF YEAR	<u>\$ 6,962</u>	<u>\$ 162,525</u>	<u>\$ 169,487</u>

See accompanying notes to the financial statements.

**LAS TORRES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1 - NATURE OF THE ORGANIZATION

Las Torres Homeowners Association (the “Association”), a non-stock homeowners association, was incorporated on January 21, 1980, 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 an active 55+ retirement community. The Association consists of 25 completed single family homes. The Association is located in Carefree, Arizona. There is a Board of Directors elected by the member homeowners. The Board of Directors had engaged Kachina Management Inc., as the managing agent for the Association. Subsequent to year end, the Association is self-managed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The Association’s general records and the accompanying financial statements are prepared using the modified cash method of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. These financial statements have been modified to report an asset for utility deposits and a liability for prepaid assessments.

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.

Cash and Cash Equivalents

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 certificates of deposit.

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.

Prepaid Assessments and Revenue Recognition

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.

**LAS TORRES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

In accordance with American Institute of Certified Public Accountants guidelines, 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 the members on the basis of usage.

The Association capitalizes all personal property it acquires. Purchased property and equipment is recorded at cost and depreciated utilizing various acceptable methods over the useful lives of the property and equipment.

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 streets, basketball court, tennis court, walls, fencing, a pool, a spa, 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 July 11, 2019, which is the date the financial statements were available to be issued.

NOTE 3 - MAINTENANCE ASSESSMENTS AND EXPENSES

Association members are subject to annual assessments to provide funds for the Association's operating expenses and future major repairs and replacements. During 2018, the combined annual assessment was \$3,948, payable in monthly installments of \$329. Excess assessments at year end are retained by the Association for use in future periods. There is no maximum annual assessment defined in the Association's governing documents.

NOTE 4 - 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 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 5 - COMMITMENTS AND CONTINGENCIES

The Association enters into various contracts for management, landscape and other services. Generally all contracts are for one year terms and can be canceled by either party with 30 to 90 day notifications.

**LAS TORRES HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 6 - 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 \$0 and \$50, respectively, for the year ended December 31, 2018. Federal and state income taxes disbursed in the current year for the prior year were \$0 and \$50, respectively.

NOTE 7 - 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, 2018.

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, 2018.

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 2016, or by Arizona state tax authorities for years before 2015.

NOTE 8 - REPLACEMENT FUND

The Association accumulates funds for future major repairs and replacements; at December 31, 2018, these funds were \$162,525 and are held in separate accounts and are generally not available for operating purposes.

In 2015, 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 August 1, 2015. 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.



**LAS TORRES HOMEOWNERS
ASSOCIATION**

SUPPLEMENTARY
INFORMATION



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**LAS TORRES HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018**

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 August 1, 2015. 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, 2018
Courts	7 to 22	\$ 36,213	\$ -
Irrigation	1 to 6	6,900	-
Walls/Fencing	3 to 29	142,955	-
Monument Signs	17	3,000	-
Asphalt	2 to 25	84,839	-
Pool/Spa	1 to 15	39,208	-
Roofing	1 to 14	191,658	-
Unallocated		-	162,525
Total		\$ 504,773	\$ 162,525