

**RIO CROSSING HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:

### **RIO CROSSING HOMEOWNERS ASSOCIATION**

Avondale, Arizona

We have audited the accompanying financial statements of Rio Crossing 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 Rio Crossing 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  
September 7, 2018

**RIO CROSSING 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>
<b><u>ASSETS</u></b>			
Cash and cash equivalent	\$ 124,826	\$ 401,047	\$ 525,873
 TOTAL ASSETS	 <u>124,826</u>	 <u>401,047</u>	 <u>525,873</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b><u>LIABILITIES</u></b>	<u>-</u>	<u>-</u>	<u>-</u>
 <b><u>FUND BALANCES</u></b>	 <u>124,826</u>	 <u>401,047</u>	 <u>525,873</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 124,826</u>	 <u>\$ 401,047</u>	 <u>\$ 525,873</u>

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

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

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Homeowner Assessments	\$ 215,582	\$ 94,181	\$ 309,763
Legal Fee Reimbursement	9,091	-	9,091
CC&R Violation Fees	3,804	-	3,804
Late Charges	3,092	-	3,092
NSF Fees Reimbursed	135	-	135
Interest Income	67	459	526
Total Revenues	<u>231,771</u>	<u>94,640</u>	<u>326,411</u>
<b>EXPENSES</b>			
Administrative	52,781	-	52,781
General Maintenance	153,223	-	153,223
Utilities	73,872	-	73,872
Reserve Expenses	-	2,800	2,800
Total Expenses	<u>279,876</u>	<u>2,800</u>	<u>282,676</u>
<b>EXCESS REVENUES (EXPENSES)</b>	(48,105)	91,840	43,735
Fund Balances Beginning of Year	<u>242,931</u>	<u>239,207</u>	<u>482,138</u>
Transfer between funds	<u>(70,000)</u>	<u>70,000</u>	<u>-</u>
<b>FUND BALANCES END OF YEAR</b>	<u><u>\$ 124,826</u></u>	<u><u>\$ 401,047</u></u>	<u><u>\$ 525,873</u></u>

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

**RIO CROSSING 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

Rio Crossing Homeowners Association was incorporated on June 15, 2004, 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 Avondale, Arizona and consists of 345 residential units. The Board of Directors has engaged AAM, LLC as the managing agent for the Association.

Basis of Accounting

The Association's general records and the accompanying 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 separate funds. 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 to the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

Cash listed as operating is available for current operations and is not bound by any restriction or designation. Cash listed as reserves is designated for future major repairs and replacements and is generally not available for current operations. The Association maintains cash at various financial institutions, which may at times exceed federally insured amounts. The Association considers all highly liquid investments with original maturities of less than three months, to be cash equivalents.

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.

**RIO CROSSING 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)**

Property and Equipment

Real property and common area acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties:

- a. Are not used to generate significant cash flows on the basis of usage from members and nonmembers.
- b. Cannot be sold without a majority vote of the membership.

The contributed common areas are not capitalized and consist of lakes and park areas.

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 and \$-0- for the current 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

Subsequent Event

Management has evaluated subsequent events through September 7, 2018, the date the financial statements were available to be issued.

The Association received reimbursement of \$19,238 from its insurance carrier for storm damage incurred in July 2017.



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

**NOTE 2 – HOMEOWNER ASSESSMENTS**

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to assess late fees and, if necessary retain legal counsel, and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year. Annual assessments were \$860 for the year ended December 31, 2017, payable in four equal quarterly payments.

**NOTE 3 – CONCENTRATIONS**

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

The Association's cash and cash equivalents are held in various financial institutions. The Association at times during operations has cash deposits, which exceed the amount of insurance provided on such deposits. As of December 31, 2017, the Federal Deposit Insurance Corporation (FDIC) insures only the first \$250,000 of funds at member banks.

**NOTE 4 – 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 \$401,047 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 Data Analysis, 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.



Jeffrey C. McMullin  
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To the Board of Directors of:

**RIO CROSSING HOMEOWNERS ASSOCIATION**

Avondale, Arizona

**Opinion on Supplementary Schedule of Expenses**

We have audited the financial statements of Rio Crossing Homeowners Association as of and for the year ended December 31, 2017, and our report thereon dated September 7, 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 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 us with sufficient evidence to express an opinion or provide any assurance.

*Mansperger Patterson & McMullin, PLC*

Tempe, Arizona  
September 7, 2018

**SCHEDULE I**

**RIO CROSSING HOMEOWNERS ASSOCIATION  
SCHEDULE OF EXPENSES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>GENERAL MAINTENANCE</b>			
Landscape Contract	\$ 67,200	\$ -	\$ 67,200
Common Area Maintenance	32,610	-	32,610
Misc Landscape - Other	17,938	-	17,938
Tree Maintenance	11,100	-	11,100
Sprinkler Repairs	9,636	-	9,636
Vandalism Maintenance	4,471	-	4,471
Storm Damage	3,722	-	3,722
Tot Lot Maintenance	2,184	-	2,184
General Maintenance	1,352	-	1,352
Playground Contract	1,000	-	1,000
Exterminating Contract	900	-	900
Backflow Inspection	653	-	653
Pest Control	457	-	457
	<u>153,223</u>	<u>-</u>	<u>153,223</u>
<b>UTILITIES</b>			
Water	69,529	-	69,529
Electric	4,343	-	4,343
	<u>73,872</u>	<u>-</u>	<u>73,872</u>
<b>ADMINISTRATIVE</b>			
Management Contract	22,200	-	22,200
Legal Fees - Collections	10,980	-	10,980
Postage & Mail	9,940	-	9,940
Insurance	4,316	-	4,316
Social Expense	2,159	-	2,159
Legal Fees Association	1,280	-	1,280
Audit Fees	750	-	750
Meeting & Community	610	-	610
Day Porter Contract	450	-	450
Taxes - State	50	-	50
Bank Charges	30	-	30
Taxes, Licenses and Other Fees	10	-	10
Property Taxes	6	-	6
	<u>52,781</u>	<u>-</u>	<u>52,781</u>
<b>MAJOR REPAIRS AND REPLACEMENTS</b>			
Reserve Expense	-	2,800	2,800
	<u>-</u>	<u>2,800</u>	<u>2,800</u>
<b>TOTAL EXPENSES</b>	<u>\$ 279,876</u>	<u>\$ 2,800</u>	<u>\$ 282,676</u>

See Independent Auditors' Report  
on Supplementary Information.

**RIO CROSSING HOMEOWNERS ASSOCIATION  
SUPPLEMENTARY INFORMATION  
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2017**

**FUTURE MAJOR REPAIRS AND REPLACEMENTS**

Reserve Data Analysis, Inc. completed a study in October 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated 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.

<b>Components</b>	<b>Estimated Remaining Useful Lives</b>	<b>Estimated Current Replacement Costs</b>	<b>Reserve Fund Balance</b>
<b>Paint</b>	0-28	26,033	
<b>Walls</b>	0-28	16,000	
<b>Park Equipment</b>	0-28	98,850	
<b>Drywells</b>	0-28	4,050	
<b>Granite Replenishment</b>	0-28	76,895	
<b>Irrigation</b>	0-28	250,000	
<b>Mailboxes/Monument Sign</b>	0-28	48,550	
<b>Unallocated Funds</b>	0-28		401,047
		\$ 520,377	\$ 401,047
		\$ 520,377	\$ 401,047