

THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2016

THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the
Villas at South Pointe Homeowners Association
Laughlin, Nevada

Report on the Financial Statements

I have audited the accompanying financial statements of the Villas at South Pointe Homeowners Association, 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.

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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion


In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Villas at South Pointe Homeowners Association as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule I – Supplementary Information Comparing Actual Expenses to Budgeted Expenses on page 11, is presented for purposes of additional analysis as required by the laws of the State of Nevada, and is not a required part of the financial statements. Such information is the responsibility of the Association’s management. Such information, except for that portion marked “unaudited”, was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That 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 my opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements in Schedule II - Supplementary Information on Future Major Repairs and Replacements on page 12 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. I have applied certain limited procedures to the required supplementary information 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 for consistency with management’s responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Charles G. Coplan Jr., C.P.A.
Laughlin, Nevada
May 4, 2017

THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION
BALANCE SHEET
December 31, 2016

ASSETS	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash in bank	\$ 2,196	\$ 114,975	\$ 117,171
Short term investments- certificate of deposit	-	-	-
Delinquent assessments	1,965	-	1,965
Allowance for doubtful accounts	(1,164)	-	(1,164)
Other receivables	-	-	-
Interfund receivables/(payables)	(5,671)	5,671	-
Prepaid expenses	6,087	-	6,087
Furniture and equipment, net of accumulated depreciation of \$404	3,633	-	3,633
Utilities deposit	-	-	-
TOTAL ASSET	\$ 7,046	\$ 120,646	\$ 127,692
 LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 2,045	\$ -	\$ 2,045
Assessments paid in advance	475	-	475
Insurance payable	4,965	-	4,965
Accrued income taxes	-	-	-
TOTAL CURRENT LIABILITIES	7,485	-	7,485
FUND BALANCES	(439)	120,646	120,207
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,046	\$ 120,646	\$ 127,692

See accompanying notes to financial statements.

**THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
Year ended December 31, 2016**

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Regular assessments	\$ 101,223	21,669	\$ 122,892
Late charges	7	-	7
Interest income	5	72	77
Other Income	-	-	-
	<u>101,235</u>	<u>21,741</u>	<u>122,976</u>
EXPENSES			
Management Fees	7,080	-	7,080
Business Licenses and Fees	876	-	876
Depreciation Expense	404	-	404
Insurance	8,372	-	8,372
Legal & Accounting	-	-	-
Audit	2,244	-	2,244
Office Expense	506	-	506
Income Tax Expense	-	-	-
Landscaping Contract	17,280	-	17,280
Pool/spa Contract	6,000	-	6,000
Landscaping Repairs and Supplies	5,864	-	5,864
Pool Repairs and Supplies	2,833	-	2,833
Janitorial	1,200	-	1,200
Termite/pest control	1,320	-	1,320
General repairs and maintenance	4,008	-	4,008
Major Repairs & Replacements	-	15,280	15,280
Alarms- Monitoring and maintenance	7,670	-	7,670
Utilities- Electricity	11,165	-	11,165
Utilities- Telephone (alarms)	5,523	-	5,523
Utilities- Trash	6,061	-	6,061
Utilities- Water	17,030	-	17,030
Utilities- Propane gas	-	-	-
Ombudsman	208	-	208
Bad debt expense	-	-	-
Miscellaneous	-	-	-
	<u>105,644</u>	<u>15,280</u>	<u>120,924</u>
Excess/(Deficiency) of Revenues to Expenses	(4,409)	6,461	2,052
BEGINNING FUND BALANCES	(67)	118,222	118,155
Interfund transfers	-	-	-
Transfer new pool furniture from replacement fund	4,037	(4,037)	-
ENDING FUND BALANCES	<u>\$ (439)</u>	<u>\$ 120,646</u>	<u>\$ 120,207</u>

See accompanying notes to financial statements.

THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2016

	<u>OPERATING</u> <u>FUND</u>	<u>REPLACEMENT</u> <u>FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess/(Deficiency) of revenues over expenses	\$ (4,409)	\$ 6,461	\$ 2,052
Adjustments to reconcile excess/(deficiency) of revenues over expenses to net cash provided by operating activities:			
Depreciation	404	-	404
Net Interfund borrowings	(506)	506	-
(Increase) decrease in:			
Delinquent assessments	3,052	-	3,052
Other receivables	-	-	-
Prepaid expenses	(157)	-	(157)
Increase (decrease) in:			
Allowance for doubtful accounts	(836)	-	(836)
Accounts payable	932	-	932
Assessments paid in advance	-	-	-
Insurance payable	136	-	136
Accrued income taxes	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	(1,384)	6,967	5,583
CASH FLOWS FROM INVESTING ACTIVITIES:			-
Purchase new pool furniture	-	(4,037)	(4,037)
(Increase) decrease in investment in certificate of deposit	-	-	-
NET INCREASE/(DECREASE) FROM INVESTING ACTIVITIES	-	(4,037)	(4,037)
CASH FLOWS FROM FINANCING ACTIVITIES:			-
NET INCREASE/(DECREASE) FROM FINANCING ACTIVITIES	-	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,384)	2,930	1,546
CASH AT BEGINNING OF YEAR	3,580	112,045	115,625
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,196	\$ 114,975	\$ 117,171
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

THE VILLAS AT SOUTH POINTE
HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - NATURE OF ORGANIZATION

The Villas at South Pointe Homeowners' Association is a statutory condominium association incorporated on December 14, 1989, in the State of Nevada as a non-profit, non-stock corporation. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Laughlin, Nevada, and is planned for 171 residential units. Only 49 of the planned 171 residential units have been built to date.

NOTE 2 - DATE OF MANAGEMENT'S REVIEW

In preparing financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 4, 2017, the date that the financial statements were available to be issued.

NOTE 3 - 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 in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

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

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Delinquent assessments at the balance sheet date represent assessments due from owners. The Association's policy is to place liens on the units of members whose assessments are sixty days or more delinquent. Delinquent regular assessments at December 31, 2016 were \$1,965. The Board believes that one or more of its current or future delinquent accounts may ultimately be uncollectible and as such has established an allowance for doubtful accounts at December 31, 2016 totaling \$1,164

THE VILLAS AT SOUTH POINTE
HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Member Assessments (Continued)

The annual budget and owners' assessments are determined by the Board of Directors and are approved by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. Monthly assessments to unit owners during 2016 were \$209. Per the budget, \$36.85 of the monthly assessment per unit was designated for the replacement fund.

Interest Income

Interest earned on the separate accounts maintained for future major repairs and replacements is allocated to the replacement fund, while interest earned on the operating account is allocated to the operating fund.

Income Taxes

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2016. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which is comprised entirely of interest income, is taxed at the rate of 30% by the federal government. The Association had no tax liability for 2016.

As of December 31, 2016, the Association's federal tax returns for 2013, 2014 and 2015 remain open for examination by the Internal Revenue Service.

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. Personal property, in excess of \$500, acquired by the Association is recorded at cost and personal property contributed to the Association by the declarant is recorded at the estimated fair market value at the date of contribution. Personal property capitalized on the books of the Association is depreciated over their estimated useful lives of five to seven years using the straight-line method.

THE VILLAS AT SOUTH POINTE
HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

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 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.

NOTE 4 – CONCENTRATIONS

On October 4, 1996, Windmill Properties, Inc. acquired 37 unsold completed units as well as the corresponding property and rights to complete the remaining 122 units. Windmill Properties sold its interest in the rights to complete the remaining 122 units in 2010, and owned 34 units at the end of 2016. Additionally, the principal owner of Windmill Properties, Inc owned a unit in 2016. Total regular assessments assessed Windmill Properties, Inc. and its principal owner by the Association during 2016 was \$87,780 or 71.43% of total regular assessments for 2016.

NOTE 5 – CASH FLOW INFORMATION

The Association considers all short term investments with an original maturity of three months or less to be cash equivalents.

NOTE 6 – FIDELITY BOND COVERAGE

The Association's CC&R's, as well as the state of Nevada, require that the Board, officers and employees of the Association, committee members, and employees of any management agent be covered under a fidelity bond based upon estimated level of replacement funds and three months assessments on all units. At December 31, 2016, the amount of fidelity coverage required by the Association's CC&R's and the state of Nevada was \$145,700. The Association's actual fidelity bond coverage at December 31, 2016 was \$100,000, which was \$45,700 short of the requirements of the CC&R's and the state of Nevada.

THE VILLAS AT SOUTH POINTE
HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 7 – INTERFUND ADVANCES

Due to unexpected operating expenditures, the Association was unable to make three months replacement fund contributions in 2015, resulting in an interfund payable due from the operating fund to the replacement fund of \$6,177 at the beginning of 2016. During 2016, the Association repaid \$506 of the interfund payable, resulting in an interfund payable due from the operating fund to the replacement fund of \$5,671 at December 31, 2016.

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$120,646 at December 31, 2016, are comprised of an interfund receivable from the operating fund of \$5,671, and cash in the bank of \$114,975. The replacement funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund, while interest earned on the operating funds are allocated to the operating fund.

In August of 2013, the Association's board of directors contracted with Robert Saylor Reserve Studies, LLC, a consulting company, to conduct a study to estimate the remaining useful lives and the replacement cost of the common property components. The study was based on estimated current costs assuming an inflation rate of 3.00%, an investment rate of return of 1.50%.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement cost, considering amounts previously designated for future repairs and replacements. Actual expenditures, however, may vary from the estimated amounts 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.

Based on the study, the recommended funding for the replacement fund in 2016 was \$33,522 which was comprised of projected interest income of \$1,591 and assessment contributions of \$31,931. During 2016 the Association funded \$22,247 which was comprised of the designated \$21,669 in assessment contributions and the \$72 in interest earned on the replacement funds, increased by the \$506 repaid to the replacement fund from the operating fund.

THE VILLAS AT SOUTH POINTE
HOMEOWNERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The scope of this audit did not include testing the adequacy of the replacement fund. The replacement fund amounts, presented as Supplementary Information, are management's representation based upon assumptions and projections of estimated replacement costs, estimated remaining lives, and present conditions.

SUPPLEMENTARY INFORMATION

THE VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION
SCHEDULE I - Supplementary Information Comparing Actual Expenses to Budgeted Expenses
Year ended December 31, 2016

EXPENSES	OPERATING FUND	REPLACEMENT FUND	TOTAL	BUDGET FOR THE YEAR (Unaudited)	VARIANCE TO BUDGET (Unaudited)
Management Fees	7,080	-	7,080	7,080	-
Business Licenses and Fees	876	-	876	1,051	(175)
Depreciation Expense	404	-	404	-	404
Insurance	8,372	-	8,372	8,800	(428)
Legal & Accounting	-	-	-	500	(500)
Audit	2,244	-	2,244	2,150	94
Office Expense	506	-	506	795	(289)
Income Tax Expense	-	-	-	-	-
Landscaping Contract	17,280	-	17,280	17,280	-
Pool/spa Contract	6,000	-	6,000	6,000	-
Landscaping Repairs and Supplies	5,864	-	5,864	3,500	2,364
Pool Repairs and Supplies	2,833	-	2,833	1,500	1,333
Janitorial	1,200	-	1,200	1,200	-
Termite/pest control	1,320	-	1,320	1,320	-
General repairs and maintenance	4,008	-	4,008	5,000	(992)
Major Repairs & Replacements	-	15,280	15,280	9,000	6,280
Alarms- Monitoring and maintenance	7,670	-	7,670	8,000	(330)
Utilities- Electricity	11,165	-	11,165	11,200	(35)
Utilities- Telephone (alarms)	5,523	-	5,523	5,000	523
Utilities- Trash	6,061	-	6,061	6,100	(39)
Utilities- Water	17,030	-	17,030	14,600	2,430
Utilities- Propane gas	-	-	-	-	-
Ombudsman	208	-	208	147	61
Bad debt expense	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Expenses	105,644	15,280	120,924	110,223	10,701

**VILLAS AT SOUTH POINTE HOMEOWNERS ASSOCIATION
SCHEDULE II - SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS
12/31/2016
(UNAUDITED)**

The Association's Board of Directors engaged the consulting firm of Robert Saylor Reserve Studies, LLC in August 2013 to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components as of the date of the study, August 20, 2013. 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.

Components	Estimated Remaining Useful Life (Years) as of August 2013	Estimated Current Replacement Cost as of August 2013	Components of the Replacement Fund Balance at 12/31/2016
Asphalt Seal, Repair, Patch	3	\$ 9,735	
Asphalt Overlay 2"	8	60,841	
Concrete Curb & Gutter, Repair/Replace	8	18,233	
Steel Fence & Railing, Repair/Replace	8	23,109	
Pedestrian Entry Gates, Repair/Replace	10	1,350	
Steel Work, Paint	2	7,086	
Concrete Flatwork, Repair/Replace	8	4,884	
Concrete Blockwall, Maintenance	8	6,032	
Concrete Pavers, Repair/Replace	2	1,113	
Chain Link Fencing, Repair/Replace	2	3,647	
Irrigation Controllers, Replace	4	1,400	
Backflow Preventers, Repair/Replace	3	10,000	
Building Exterior Stucco, Repair/Paint	4	79,000	
Building Coach Lights, Replace	12	4,800	
Building Security Lights, Replace	7	2,000	
Building Roofs, Inspect/Repair/Replace	5	5,500	
Mail Box Units, Repair/Replace	8	2,000	
Entry Monuments, Repair	8	1,350	
Pool & Clubhouse	1-12	34,049	
Utility Aboveground Contingency	4	10,000	
Utility Underground Contingency	4	10,000	
Landscape Contingency	4	12,000	
		\$ 308,129	\$ 114,975

The \$114,975 in the Components of Replacement Funds Balance at 12/31/2016 is the replacement fund balance at 12/31/2016 of \$120,646 less the \$5,671 interfund receivable due from the operating fund at 12/31/2016.

Per the reserve study, the Association's "Theoretically Ideal Ending Balance" at December 31, 2016 should be \$262,930. Since the Association effectively only has \$114,975 in replacement funds at December 31, 2016, this would imply that the Association's replacement fund was only 43.73% funded at December 31, 2016.