

LAGUNA NUEVA CONDOMINIUMS ASSOCIATION

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2016

LAGUNA NUEVA CONDOMINIUMS ASSOCIATION

DECEMBER 31, 2016

TABLE OF CONTENTS

	<u>PAGE NO.</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Balance Sheet	3
Statement of Revenues and Expenses and Changes in Fund Balances	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
SUPPLEMENTARY INFORMATION	
Schedule I- Supplementary Information on Future Major Repairs and Replacements	11

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the  
Laguna Nueva Condominiums Association  
Bullhead City, Arizona

### Report on the Financial Statements

I have audited the accompanying financial statements of the Laguna Nueva Condominiums 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 Laguna Nueva Condominiums 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.

**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 I - Supplementary Information on Future Major Repairs and Replacements 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, 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 22, 2017

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
BALANCE SHEET  
December 31, 2016**

<b>ASSETS</b>	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
Cash on hand and in the bank	\$ 20,410	\$ 193,995	\$ 214,405
Short term investments	-	75,000	75,000
Delinquent regular assessments	7,434	-	7,434
Other receivables from owners	12,653	-	12,653
Allowance for doubtful accounts	(13,506)	-	(13,506)
Accrued interest receivable	-	64	64
Interfund advances	-	-	-
Prepaid expenses	64,953	-	64,953
Furniture and equipment, net of accumulated depreciation of \$2,484	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 91,944</b>	<b>\$ 269,059</b>	<b>\$ 361,003</b>
 <b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable	\$ 7,466	\$ -	\$ 7,466
Prepaid assessments	10,285	-	10,285
Deferred insurance proceeds	-	-	-
Insurance payable	12,824	-	12,824
Federal and state income taxes payable	50	-	50
<b>TOTAL LIABILITIES</b>	<b>30,625</b>	<b>-</b>	<b>30,625</b>
<b>FUND BALANCES</b>	<b>61,319</b>	<b>269,059</b>	<b>330,378</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 91,944</b>	<b>\$ 269,059</b>	<b>\$ 361,003</b>

**See accompanying notes to financial statements.**

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION**  
**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES**  
**For the Year Ended December 31, 2016**

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Member assessments	\$ 247,914	\$ 97,686	\$ 345,600
Late charges	62	-	62
Interest income	25	452	477
Other income	4,987	-	4,987
	<u>252,988</u>	<u>98,138</u>	<u>351,126</u>
<b>EXPENSES</b>			
Cable TV	23,508	-	23,508
Clubhouse wireless internet	642	-	642
Electricity	10,142	-	10,142
Gas	7,426	-	7,426
Pest control	1,435	-	1,435
Sewer	10,399	-	10,399
Gate and Lift Station phone	1,712	-	1,712
Trash removal	5,352	-	5,352
Water	25,052	-	25,052
Office and other expense	1,480	-	1,480
Postage	343	-	343
Landscape maintenance	21,600	-	21,600
Landscape repairs and supplies	5,076	-	5,076
Pool maintenance	5,500	-	5,500
Pool repairs and supplies	3,035	-	3,035
Janitorial	5,400	-	5,400
Accounting and audit	1,544	-	1,544
Legal - Collection	3,665	-	3,665
Legal - General	1,202	-	1,202
Management fees	8,640	-	8,640
Federal income taxes	-	-	-
State income taxes	50	-	50
Licenses/permits	350	-	350
Insurance	66,050	-	66,050
Bad debt expense	-	-	-
Reserve study	-	-	-
Depreciation	106	-	106
Roofing	5,952	-	5,952
Lagoon/dock expense	650	-	650
General repairs and maintenance	26,816	-	26,816
Major repairs and replacements	-	18,570	18,570
	<u>243,127</u>	<u>18,570</u>	<u>261,697</u>
<b>EXCESS OF (EXPENSES) OR REVENUES</b>	9,861	79,568	89,429
Fund Balances at Beginning of Year	51,458	189,491	240,949
Interfund Transfers	-	-	-
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 61,319</u>	<u>\$ 269,059</u>	<u>\$ 330,378</u>

See accompanying notes to financial statements.

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of (expenses) or revenues	\$ 9,861	\$ 79,568	\$ 89,429
Adjustments to reconcile excess (expenses) or revenues to net cash provided (used) by operating activities:			
Change in interfund receivables/payables	(8,617)	8,617	-
Interfund transfers	-	-	-
Depreciation	106	-	106
(Increase) decrease in:			
Delinquent regular assessments	4,901	-	4,901
Other receivables from owners	(2,517)	-	(2,517)
Accrued interest receivable	-	(64)	(64)
Prepaid expenses	1,314	-	1,314
Increase (decrease) in:			
Allowance for doubtful accounts	(494)	-	(494)
Accounts payable	2,084	-	2,084
Prepaid assessments	160	-	160
Insurance payable	209	-	209
Income taxes payable	-	-	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>7,007</b>	<b>88,121</b>	<b>95,128</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
(Increase)/decrease in short term investments	-	(75,000)	(75,000)
	-	(75,000)	(75,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	-	-	-
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,007</b>	<b>13,121</b>	<b>20,128</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>13,403</b>	<b>180,874</b>	<b>194,277</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 20,410</b>	<b>\$ 193,995</b>	<b>\$ 214,405</b>
<b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid	\$ 50	\$ -	\$ 50

See accompanying notes to financial statements.

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 1 - ORGANIZATION**

Laguna Nueva Condominiums Association is a condominium association incorporated in the state of Arizona on February 27, 1992. The Association is organized as a not-for-profit corporation for purposes of maintaining and preserving the common property of Laguna Nueva condominiums. The Laguna Nueva condominiums consist of 72 residential units located in Bullhead City, Arizona.

**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 22, 2017, the date that the financial statements were available to be issued.

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Laguna Nueva Condominiums Association (the Association) is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally made in accordance with an annual budget or as approved by the Board of Directors. Disbursements from the reserve fund may be made only for their designated purposes.

Member Assessments

Association members are subject to monthly assessments to provide for the Association's operating expenses, future capital acquisitions/improvements, and major repairs and replacements. The 2016 monthly assessment per unit was \$400. Per the budget, \$113.06 of the 2016 monthly assessment per unit was designated for the Replacement Fund.

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.



**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Delinquent Assessments

The delinquent assessments at the balance sheet date represent assessments due from unit owners. The Association's policy is to retain legal counsel and place levy liens on the properties of homeowners whose assessments have become significantly delinquent.

The Association utilizes the allowance method for providing for doubtful accounts whereby allowance amounts are charged to operations as a bad debt expense and delinquent accounts are written off against the allowance for doubtful accounts in the period the delinquent account is considered uncollectible. The Board believes that one or more of its delinquent accounts at December 31, 2016 may ultimately be uncollectible and as such has established an allowance for doubtful accounts at December 31, 2016 in the amount of \$13,506.

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 did not have a federal income 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.

For state income tax purposes, the Association is also taxed on its non-exempt function income. The tax rate that is applied for 2016 is 5.50% or a flat tax of \$50, whichever is greater. The Association's state income tax liability for 2016 is \$50. As of December 31, 2016, the Association's Arizona tax returns for 2012, 2013, 2014 and 2015 remain open for examination by the state of Arizona

In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Recognition of Assets and Depreciation Policy

Real property and common areas annexed to the Association by the developer are not capitalized on the Association's financial statements. Common area of the Association consists of docks, lagoon, decks and stairs, streets, pool and spa, fire and security systems, fencing, lights, the irrigation system, garages, and buildings. Such property provides no probable future economic benefit to the Association and therefore ownership is only a legal formality that has no effect on the financial position of the Association. Replacements and improvements to the real property and common areas are also not capitalized.

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recognition of Assets and Depreciation Policy

Personal property purchased, with Association funds, and to which the Association holds title, is capitalized at cost on the books of the operating fund and depreciated over the estimated useful life using the straight-line method of depreciation.

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.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

**NOTE 4 – CASH**

Cash at December 31, 2016, as represented on the balance sheet, is detailed as follows:

	<u>Operating Fund</u>	<u>Replacement Fund</u>
Mutual of Omaha Bank - General checking	\$ 20,410	\$ ---
Mutual of Omaha Bank- Money Market Account	<u>---</u>	<u>193,995</u>
TOTAL	<u>\$ 20,410</u> =====	<u>\$ 193,995</u> =====

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016**

**NOTE 5 – CERTIFICATE OF DEPOSIT**

The Association's certificate of deposit at December 31, 2016 is an FDIC insured certificate of deposit with original maturity in excess of ninety days, as follows:

	<u>Replacement Fund</u>
City First Bank of D.C. (Purchased through CDARS) - Certificate of Deposit, Maturity date September 28, 2017	<u>\$ 75,000</u>
TOTAL	<u>\$ 75,000</u>

**NOTE 6 – FIDELITY INSURANCE COVERAGE**

The Association's CC&R's require fidelity insurance coverage based upon the level of replacement funds and monthly assessments of the Association. At December 31, 2016, the level of fidelity insurance coverage required by the CC&R's of the Association was \$355,400. The Association's actual fidelity bond coverage at December 31, 2016 was \$220,000, which was \$135,400 short of the requirements of the CC&R's.

**NOTE 7 - REPLACEMENT FUND**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. **Accumulated funds, which aggregate \$269,059 at December 31, 2016 is held in a separate FDIC insured money market account and a separate FDIC insured certificate of deposit**, and are generally not available for expenditures for normal operations. 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.

The Association engaged an independent consultant to conduct a study dated July, 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. 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 costs. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments or levy special assessments, or delay major repairs and replacements until funds are available.

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2016**

**NOTE 7 - REPLACEMENT FUND (Continued)**

Based on the study, the recommended funding for the replacement fund in 2016 was \$118,765 which was comprised of projected interest income of \$3,886 and assessment contributions of \$114,879. During 2016, the Association funded \$98,138 to the replacement fund which was comprised of \$97,686 of the designated assessment contributions and the \$452 in interest earned on the replacement funds.

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

Assets designated for future major repairs and replacements at December 31, 2016 are comprised of the following:

Mutual of Omaha Bank, money market account	\$193,995
City First Bank of D.C. (Purchased through CDARS), Certificate of Deposit	75,000
Accrued Interest receivable	<u>64</u>
Total	<u>\$269,059</u>

**SUPPLEMENTARY INFORMATION**

**LAGUNA NUEVA CONDOMINIUMS ASSOCIATION**  
**SCHEDULE I - SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND**  
**REPLACEMENTS**  
**December 31, 2016**  
**(UNAUDITED)**

The Association's Board of Directors engaged the consulting firm of Robert Saylor Reserve Studies, LLC in 2012 to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. Funding requirements consider an annual inflation rate of 3%, an investment rate of return of 2%. Replacement costs were based on the estimated costs to repair or replace the common property components as of the date of the study, July 26, 2012. 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.

<b>Components</b>	<b>Estimated Remaining Useful Life (Years) at 07/26/12</b>	<b>Estimated Replacement Cost at 07/26/12</b>	<b>Components of Available Fund Balance at 12/31/16</b>
Asphalt Seal	0	\$9,918	
Asphalt Overlay, 1"	5	63,668	
Concrete Flatwork, Repair/Replace	30	11,236	
Steel Gates, Repair/Replace	20	17,717	
Steel Fencing, Repair/Replace	28	25,707	
Steel Work, Paint	1	22,000	
Building Exteriors, Repair, Paint	1	146,498	
Building Roofs, Inspect/Repair/Replace	5	38,102	
Building Interior Surfaces, Repair/Paint	5	18,000	
Building Carpet, Replace	6	11,979	
Building Tile Flooring, Repair/Replace	30	9,768	
Telephone Access System, Loops, Repair/Replace	1	2,450	
Vehicle Gate Operator, Repair/Replace	8	1,875	
Sump Pump System, Repair	2	17,200	
Building Fire Alarm System, Repair/Upgrade	10	10,000	
Security System, Repair/Replace	1	4,309	
Gazebo, Renovate	6	1,724	
Swimming Pool & Clubhouse	2 to 17	76,037	
Boat Docks, Repair/Replace	30	209,000	
Lagoon Dredging	17	95,000	
Landscape Ground Covering, Renovate	4	4,000	
Landscape Contingency	4	5,500	
Building Skylights, Repair/Replace	5	12,000	
Entry Monument, Repair/Replace	6	3,500	
Concrete Block walls, Repair/Paint	3	28,201	
Chain Link Fencing, Repair/Replace	20	8,226	
Potable Water System Contingency	3	10,000	
Security Lighting, Replace	3	4,998	
		<b>\$868,613</b>	<b>\$269,059</b>