

Ginsburg & Dwaileebe CPAs LLP

Certified Public Accountants and Consultants

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

AND
INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.

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INDEPENDENT ACCOUNTANTS' COMPILATION REPORT

To the Board of Directors
Bethany Estates Community Association, Inc.
Litchfield Park, Arizona

Management is responsible for the accompanying financial statements of Bethany Estates Community Association, Inc., 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 AICPA. 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 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.

Ginsburg & Dwaileebe CPAs, LLP

Ginsburg & Dwaileebe CPAs, LLP
Gilbert, Arizona
February 9, 2017

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash	\$ 35,515	\$ 54,305	\$ 89,820
Accounts receivable	2,845	-	2,845
Prepaid expenses	19,830	-	19,830
TOTAL ASSETS	<u>58,190</u>	<u>54,305</u>	<u>112,495</u>

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable	1,041	-	1,041
Accrued expenses	50	-	50
Prepaid assessments	5,912	-	5,912
TOTAL LIABILITIES	<u>7,003</u>	<u>-</u>	<u>7,003</u>
FUND BALANCES	<u>51,188</u>	<u>54,305</u>	<u>105,493</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 58,190</u>	<u>\$ 54,305</u>	<u>\$ 112,495</u>

See independent accountants' compilation report. The accompanying notes
are an integral part of these financial statements.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
REVENUES			
Homeowner assessments	\$ 101,114	\$ 22,445	\$ 123,558
Builder assessments	2,178	-	2,178
Working capital	-	1,014	1,014
Interest income	29	67	96
Collection fees	50	-	50
Fine fees	2,650	-	2,650
Late fees	675	-	675
TOTAL REVENUES	106,695	23,526	130,221
EXPENSES			
Utilities	17,296	-	17,296
Maintenance	61,784	-	61,784
Supplies	2,417	-	2,417
Administrative	31,634	-	31,634
Major repairs and replacements	-	830	830
TOTAL EXPENSES	113,132	830	113,962
Excess of Revenues over (under) Expenses	(6,436)	22,696	16,260
Fund Balances, Beginning of Year	57,624	31,609	89,233
Fund Balances, End of Year	\$ 51,188	\$ 54,305	\$ 105,493

See independent accountants' compilation report. The accompanying notes
are an integral part of these financial statements.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over (under) expenses	\$ (6,436)	\$ 22,696	\$ 16,260
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Decrease (increase) in			
Accounts receivable	(1,315)	-	(1,315)
Prepaid expenses	(497)	-	(497)
Increase (decrease) in			
Accounts payable	778	-	778
Assessments paid in advance	(2,569)	-	(2,569)
Net cash provided by (used in) operating activities	<u>(10,040)</u>	<u>22,696</u>	<u>12,656</u>
 NET INCREASE (DECREASE) IN CASH	 (10,040)	 22,696	 12,656
 CASH, BEGINNING OF YEAR	 <u>45,555</u>	 <u>31,609</u>	 <u>77,164</u>
 CASH, END OF YEAR	 <u>\$ 35,515</u>	 <u>\$ 54,305</u>	 <u>\$ 89,820</u>
 SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for income taxes	\$ 50	\$ -	\$ 50

See independent accountants' compilation report. The accompanying notes are an integral part of these financial statements.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: NATURE AND ORGANIZATION

Bethany Estates Community Association, Inc., (the "Association"), a non-stock homeowner association, was incorporated on June 16, 2005 under the general non-profit laws of the State of Arizona and was organized for the purposes of maintaining common areas, holding title to property and maintaining architectural control. The Association consists of 62 units located in Litchfield Park, Arizona. There is a board of directors that is elected by the member homeowners.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of Financial Statements

The Association's financial statements are prepared on the accrual basis of accounting; accordingly, revenues are recognized when earned and expenses are recognized when incurred. Assessments paid by members in advance are deferred and recognized as revenue when earned.

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.

Cash

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 considers all highly liquid investments with an original maturity of three months or less to be cash.

Accounts Receivable

The Association has not established an allowance for doubtful accounts since, in the opinion of management, all receivables are generally deemed to be collectible. There were no bad debts recorded in 2016.

See independent accountants' compilation report.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Association may capitalize any purchased common real property to which it has title or other evidence of ownership. With any common real property the Association can either:

- a. Dispose of property, at the discretion of the Board of Directors, for cash or claims to cash, and it can retain the proceeds; or
- b. Use the property to generate significant cash flows from members on the basis of usage.

Real property and common areas acquired from the developer and related improvements to such property are not required to be recorded in the Association's financial statements because those properties were donated by the developer to the Association.

Purchased property and equipment are recorded at cost and depreciated using various acceptable methods over the estimated useful lives or expensed based on the established accounting policies of the Association. Repairs and maintenance are charged to expense as incurred.

Maintenance Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and future 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 the homeowners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in the succeeding year. Maintenance assessments were \$2,028 per unit for the year ended December 31, 2015, payable in equal monthly installments.

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.

See independent accountants' compilation report.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Association files its income tax return as a homeowner's association in accordance with Internal Revenue Code Section 528 using Form 1120-H. 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 5.5% after adding the Form 1120-H \$100 specific deduction and deducting any net disbursements carryover from prior years.

The Association's federal income tax returns for 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed. The Association's state income tax returns for 2013, 2014, 2015 and 2016 are subject to examination generally for four years after they were filed.

NOTE 3: SUBSEQUENT EVENTS

The Association has evaluated subsequent events through February 9, 2017, the date which the financial statements were available to be issued.

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is setting aside funds for future major repairs and replacements, as required by the governing documents, based on funding requirements determined by the Board of Directors and a professional reserve study. The funds set aside each year are generated from member assessments and other net revenues, and are periodically transferred from the operating checking account into segregated reserve cash accounts.

Actual expenditures may vary from the estimated funding amounts determined by the Board of Directors and the reserve study, and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association may increase regular assessments, levy special assessments or delay major repairs and replacements until funds are available.

See independent accountants' compilation report.

BETHANY ESTATES COMMUNITY ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2016

The Association's board of directors engaged an independent consultant to conduct a study dated May 4, 2016, for the year beginning January 1, 2017, 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 and 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 information is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance at December 31, 2016</u>
Paint	2 - 6	\$ 20,620	\$ -
Fencing/Walls	15 - 20	67,825	-
Park Equipment	18	80,000	-
Irrigation	5 - 13	3,000	-
Mailboxes	10 - 18	7,850	-
Unallocated Funds		-	54,305
		<u>\$ 179,295</u>	<u>\$ 54,305</u>

See independent accountants' compilation report.