

*DESERT GREENS 2001 HOME OWNERS ASSOCIATION
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
DECEMBER 31, 2017*



HILBURN & LEIN, CPAs
A PROFESSIONAL CORPORATION

DESERT GREENS 2001 HOME OWNERS ASSOCIATION

DECEMBER 31, 2017

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HILBURN & LEIN, CPAs
A PROFESSIONAL CORPORATION

Gary W. Lein, CPA
Shareholder
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Shareholder
Cory Puga, CPA
Shareholder

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Desert Greens 2001 Home Owners Association
Pahrump, Nevada

We have audited the accompanying financial statements of Desert Greens 2001 Home Owners Association, which comprise the balance sheet as of December 31, 2017, and the related statements of revenue and expenses, and changes in fund balance 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

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 financial position of Desert Greens 2001 Home Owners Association as of December 31, 2017, 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.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Reserve Analysis on page 9 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 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 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.

Other Matters

The Schedule of Revenues and Expenses - Budget and Actual on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hilsum Alem CPA

Las Vegas, Nevada
October 15, 2018

**DESERT GREENS 2001 HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017**

	<u>ASSETS</u>		
	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
Cash - Notes 3 and 6	\$ 77,369	\$ 168,029	\$ 245,398
Certificate of Deposit - Note 6	-	101,669	101,669
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$6,775	3,454	-	3,454
Other Receivable	492	-	492
Due (to)/from Funds	(2,675)	2,675	-
Personal Property, Net of Accumulated Depreciation of \$67,621	41,579	-	41,579
TOTAL ASSETS	\$ 120,219	\$ 272,373	\$ 392,592

	<u>LIABILITIES AND FUND BALANCES</u>		
Accounts Payable	\$ 13,079	\$ -	\$ 13,079
Prepaid Assessments	25,154	-	25,154
	38,233	-	38,233
FUND BALANCES	81,986	272,373	354,359
TOTAL LIABILITIES AND FUND BALANCES	\$ 120,219	\$ 272,373	\$ 392,592

The accompanying notes are an integral part of these financial statements

DESERT GREENS 2001 HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Member Assessments	\$ 333,307	\$ 37,193	\$ 370,500
Late Fees	4,113	-	4,113
Interest Income	-	1,928	1,928
RV Parking Fees	8,275	-	8,275
Other Income	9,327	-	9,327
	<u>355,022</u>	<u>39,121</u>	<u>394,143</u>
EXPENSES			
Repairs and Maintenance	51,481	64,562	116,043
Landscaping	2,435	-	2,435
Insurance	11,774	-	11,774
Legal and Accounting	15,865	-	15,865
Depreciation	6,515	-	6,515
Office Expense	662	-	662
Salaries and Wages	115,636	-	115,636
Payroll Burden and Benefits	14,484	-	14,484
Telephone	4,315	-	4,315
Trash Removal	18,743	-	18,743
Electricity	26,866	-	26,866
Water	69,490	-	69,490
Community Activities	1,507	-	1,507
Miscellaneous	1,226	-	1,226
	<u>340,999</u>	<u>64,562</u>	<u>405,561</u>
EXCESS OF REVENUES OR (EXPENSES)	14,023	(25,441)	(11,418)
Fund Balances at Beginning of Year	32,114	333,663	365,777
Inter-Fund Transfers:			
Allocation of Personal Property	35,849	(35,849)	-
FUND BALANCES AT END OF YEAR	<u>\$ 81,986</u>	<u>\$ 272,373</u>	<u>\$ 354,359</u>

The accompanying notes are an integral part of these financial statements

DESERT GREENS 2001 HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of Revenues or (Expenses)	\$ 14,023	\$ (25,441)	\$ (11,418)
ADJUSTMENTS TO RECONCILE EXCESS REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Depreciation Expense	6,515	-	6,515
Interest on Certificate of Deposit	-	(1,253)	(1,253)
Changes in:			
Assessments Receivable	1,316	-	1,316
Other Receivable	(492)	-	(492)
Accounts Payable	(3,038)	-	(3,038)
Prepaid Assessments	7,405	-	7,405
	<u>11,706</u>	<u>(1,253)</u>	<u>10,453</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>25,729</u>	<u>(26,694)</u>	<u>(965)</u>
CASH FLOWS USED FOR INVESTING ACTIVITIES			
Purchase of Personal Property	<u>(35,849)</u>	<u>-</u>	<u>(35,849)</u>
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES			
Inter-Fund Transfers	<u>35,849</u>	<u>(35,849)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	25,729	(62,543)	(36,814)
Cash at Beginning of Year	<u>51,640</u>	<u>230,572</u>	<u>282,212</u>
CASH AT END OF YEAR	<u>\$ 77,369</u>	<u>\$ 168,029</u>	<u>\$ 245,398</u>
SUPPLEMENTARY INFORMATION:			
Cash Paid for Federal Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

**DESERT GREENS 2001 HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - ORGANIZATION

Desert Greens 2001 Home Owners Association was incorporated on January 3, 2002. The Association is a statutory planned unit development in Pahrump, Nevada, organized as a domestic non-profit corporation for purposes of maintaining and preserving the common property. The Association consisted of 292 annexed lots.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING METHOD

Desert Greens 2001 Home Owners Association maintains its records on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, and expenses are recognized when goods or services are received, whether paid or not.

FUND ACCOUNTING

The Association uses fund accounting which requires funds, such as operating funds, for day-to-day expenses and reserve funds, designated for future major repairs and replacements of the common property, to 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 and other designated funds may be made only for their designated purposes.

ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments, late fees, and fines due from owners.

It is the Association's policy to assess late fees on assessments over 30 days past due, and place liens against the properties of owners whose assessments are 90 days or more past due. For assessments considered uncollectable, the Association uses the allowance method for doubtful accounts, and charges assessments to operations in the period they are considered uncollectible. Also included in the allowance, are estimated uncollectable fines and/or late fees which are offset against current year fine and/or late fee income. When estimating the allowance for doubtful accounts, the Association considers factors such as historical losses, existing economic conditions, and the likelihood of collecting assessments beyond the nine month super priority lien.

PROPERTY AND EQUIPMENT

Real property and common areas annexed to the Association by the declarant are not capitalized on the Association's financial statements. Common property, which consists of asphalt and concrete, fencing, lighting, pool and spa, community center, nine hole executive golf course, gates, signage, monument, and various landscaping are restricted to use by the Association's members, their tenants, and guests. Such property provides no probable future economic benefit to the Association, and such 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. According to the Association's governing documents, a majority of all owners must approve dispositions of any common real property.

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

**DESERT GREENS 2001 HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make certain estimates and assumptions that affect amounts reported in the statements and accompanying notes. Assets, liabilities, and contingency disclosures require estimates as of the date of the financial statements. Revenues and expenses require estimates during the reporting period. Actual results could differ from those estimates.

DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report, which is the date the financial statements were issued.

CASH FLOW STATEMENT

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 3 - CASH

Cash at December 31, 2017, as represented on the balance sheet is detailed as follows:

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>
Petty Cash	\$ 398	\$ -
Meadows Bank:		
General Checking	76,971	-
Money Market Account	<u>-</u>	<u>168,029</u>
	<u>\$ 77,369</u>	<u>\$ 168,029</u>

NOTE 4 - RESERVE FUND

The Association's governing documents require the establishment of a reserve fund to accumulate cash for future major repairs and replacements of the common property. The governing documents and state statute requires the Association to have a reserve study conducted to estimate the remaining useful lives of the common property components, and determine estimated funding requirements. In 2015, the Association engaged an independent specialist to conduct a reserve study.

According to the reserve study, the recommended reserve contribution for 2017 was \$43,260. The Association assessed \$37,193 for reserve funding in 2017. These reserve funds are accumulated based on estimated future costs. Actual expenditures may vary from these estimates, and the variance may be material. At December 31, 2017, the Association had \$272,373 in accumulated reserve funds.

DESERT GREENS 2001 HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 5 - FEDERAL INCOME TAXES

For the year ended December 31, 2017, the Association elected to file as a corporation in accordance with Internal Revenue Code Section 277. Under that section, the Association qualifies as a tax exempt association for all income and expenses related to its membership activities which is the management, maintenance and care of Association common area property. The net non-membership income from earned interest was taxed at 15%. For 2017, the Association owed no federal income tax. Federal tax filings are subject to audit by the Internal Revenue Service. Tax years open under the statute of limitations are 2015, 2016 and 2017.

NOTE 6 - OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF RISK

The Association has a potential concentration of credit risk in that it maintains deposits with Meadows Bank in excess of amounts insured by FDIC. At December 31, 2017, this institution reported deposits before outstanding checks of \$351,864 of which \$250,000 was insured by FDIC, resulting in an uninsured cash balance of \$101,864.

SUPPLEMENTARY FINANCIAL INFORMATION

DESERT GREENS 2001 HOMEOWNERS ASSOCIATION
SCHEDULE OF RESERVE ANALYSIS
DECEMBER 31, 2017

(UNAUDITED)

The Association engaged an independent specialist to conduct a Reserve Study in 2015 to estimate the remaining useful lives and the replacement costs of the common property components. Replacement cost projections are based on current estimated replacement costs and are not adjusted for future years interest and/or inflation. The study uses the full funding method, which funds the reserve by attaining and maintaining the cumulative reserve at or near the full funding goal.

MAJOR COMPONENT	ESTIMATED REMAINING USEFUL LIFE	ESTIMATED CURRENT REPLACE MENT COST
Common Area	0 - 17	\$ 408,288
Pool and Spa Area	0 - 18	31,112
Clubhouse	0 - 18	61,843
Wall, Fences, and Gates	0 - 16	<u>56,050</u>
		\$ <u><u>557,293</u></u>

At December 31, 2017, the Association had \$272,373 in accumulated, unallocated reserve funds.

(See Independent Auditors' Report)

DESERT GREENS 2001 HOMEOWNERS ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2017

	ACTUAL	BUDGET	VARIANCE
		(UNAUDITED)	FAVORABLE/ (UNFAVORABLE) (UNAUDITED)
<u>OPERATING FUND</u>			
REVENUES			
Member Assessments	\$ 333,307	\$ 333,307	\$ -
Late Fees	4,113	1,200	2,913
RV Parking Fees	8,275	8,000	275
Other Income	9,327	6,200	3,127
	<u>355,022</u>	<u>348,707</u>	<u>6,315</u>
EXPENSES			
Repairs and Maintenance	51,481	43,045	(8,436)
Landscaping	2,435	9,825	7,390
Insurance	11,774	12,275	501
Legal and Accounting	15,865	8,580	(7,285)
Depreciation	6,515	-	(6,515)
Office Expense	662	1,000	338
Salaries and Wages	115,636	125,700	10,064
Payroll Burden and Benefits	14,484	16,420	1,936
Telephone	4,315	3,900	(415)
Trash Removal	18,743	22,000	3,257
Electricity	26,866	37,900	11,034
Water	69,490	66,700	(2,790)
Community Activities	1,507	1,325	(182)
Miscellaneous	1,226	2,140	914
	<u>340,999</u>	<u>350,810</u>	<u>9,811</u>
EXCESS OF REVENUES OR (EXPENSES)	\$ <u>14,023</u>	\$ <u>(2,103)</u>	\$ <u>16,126</u>
<u>RESERVE FUND</u>			
REVENUES			
Member Assessments	\$ 37,193	\$ 37,193	\$ -
Interest Income	1,928	-	1,928
	<u>39,121</u>	<u>37,193</u>	<u>1,928</u>
EXPENSES			
Common Area Repairs	<u>64,562</u>	<u>-</u>	<u>(64,562)</u>
EXCESS OF REVENUES OR (EXPENSES)	\$ <u>(25,441)</u>	\$ <u>37,193</u>	\$ <u>(62,634)</u>

(See Independent Auditors' Report)