

*DESERT GREENS 2001 HOME OWNERS ASSOCIATION  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016*



**HILBURN & LEIN, CPAs**  
A PROFESSIONAL CORPORATION

DESERT GREENS 2001 HOME OWNERS ASSOCIATION

DECEMBER 31, 2016

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HILBURN & LEIN, CPAs  
A PROFESSIONAL CORPORATION

Gary W. Lein, CPA  
Shareholder  
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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, 2016, 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, 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.

***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.

*William A. Levin CPA*

Las Vegas, Nevada  
June 25, 2018

**DESERT GREENS 2001 HOMEOWNERS ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2016**

<u>ASSETS</u>			
	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
Cash - Notes 3 and 6	\$ 51,640	\$ 230,572	\$ 282,212
Certificate of Deposit - Note 6	-	100,415	100,415
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$13,275	4,770	-	4,770
Due (to)/from Funds	(2,675)	2,675	-
Personal Property, Net of Accumulated Depreciation of \$61,106	12,245	-	12,245
<b>TOTAL ASSETS</b>	<b>\$ <u>65,980</u></b>	<b>\$ <u>333,662</u></b>	<b>\$ <u>399,642</u></b>

<u>LIABILITIES AND FUND BALANCES</u>			
Accounts Payable	\$ 16,117	\$ -	\$ 16,117
Prepaid Assessments	17,749	-	17,749
	<u>33,866</u>	<u>-</u>	<u>33,866</u>
<b>FUND BALANCES</b>	<u>32,114</u>	<u>333,662</u>	<u>365,776</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>65,980</u></b>	<b>\$ <u>333,662</u></b>	<b>\$ <u>399,642</u></b>

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, 2016**

	OPERATING FUND	RESERVE FUND	TOTAL
<b>REVENUES</b>			
Member Assessments	\$ 330,492	\$ 42,000	\$ 372,492
Late Fees	580	-	580
Interest Income	-	1,208	1,208
RV Parking Fees	8,750	-	8,750
Other Income	6,259	-	6,259
	<u>346,081</u>	<u>43,208</u>	<u>389,289</u>
<b>EXPENSES</b>			
Repairs and Maintenance	38,851	6,200	45,051
Landscaping	7,721	-	7,721
Insurance	11,569	-	11,569
Legal and Accounting	6,437	-	6,437
Bad Debts Expense	12,340	-	12,340
Depreciation	2,372	-	2,372
Office Expense	1,163	-	1,163
Salaries and Wages	115,004	-	115,004
Payroll Burden and Benefits	13,301	-	13,301
Telephone	3,687	-	3,687
Trash Removal	21,985	-	21,985
Electricity	30,130	-	30,130
Water	66,373	-	66,373
Community Activities	1,273	-	1,273
Miscellaneous	1,537	52	1,589
	<u>333,743</u>	<u>6,252</u>	<u>339,995</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	12,338	36,956	49,294
<b>Fund Balances at Beginning of Year</b>	24,589	291,893	316,482
<b>Inter-Fund Transfers:</b>			
Allocation of Personal Property	4,303	(4,303)	-
Excess Operating Funds	(9,116)	9,116	-
	<u>(4,813)</u>	<u>4,813</u>	<u>-</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 32,114</u>	<u>\$ 333,662</u>	<u>\$ 365,776</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, 2016**

	OPERATING FUND	RESERVE FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess of Revenues over Expenses	\$ 12,338	\$ 36,956	\$ 49,294
<b>ADJUSTMENTS TO RECONCILE EXCESS REVENUES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Bad Debts Expense	12,340	-	12,340
Depreciation Expense	2,372	-	2,372
Interest on Certificate of Deposit	-	(7,100)	(7,100)
<b>Changes in:</b>			
Assessments Receivable	(13,775)	-	(13,775)
Declarant Assessments Receivable	25,926	-	25,926
Accounts Payable	1,335	-	1,335
Prepaid Assessments	(1,722)	-	(1,722)
	<u>26,476</u>	<u>(7,100)</u>	<u>19,376</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>38,814</u>	<u>29,856</u>	<u>68,670</u>
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>			
Purchase of Personal Property	(10,430)	-	(10,430)
<b>CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES</b>			
Inter-Fund Transfers	(9,116)	9,116	-
<b>NET INCREASE IN CASH</b>	19,268	38,972	58,240
Cash at Beginning of Year	28,069	195,903	223,972
<b>CASH AT END OF YEAR</b>	<u>\$ 47,337</u>	<u>\$ 234,875</u>	<u>\$ 282,212</u>
<b>SUPPLEMENTARY INFORMATION:</b>			
Cash Paid for Federal Income Taxes	\$ -	\$ -	\$ -

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, 2016**

**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 uncollectable. 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, 2016**

**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, 2016, as represented on the balance sheet is detailed as follows:

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>
Petty Cash	\$ 40	\$ -
Meadows Bank:		
General Checking	51,600	-
Money Market Account	-	230,572
	<u>\$ 51,640</u>	<u>\$ 230,572</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 2016 was \$42,000. The Association assessed \$42,000 and transferred an additional \$9,116 for reserve funding in 2016. 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, 2016, the Association had \$333,662 in accumulated reserve funds.

**DESERT GREENS 2001 HOME OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**NOTE 5 - FEDERAL INCOME TAXES**

For the year ended December 31, 2016, 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 2016, 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 and 2016.

**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, 2016, this institution reported deposits before outstanding checks of \$383,740 of which \$250,000 was insured by FDIC, resulting in an uninsured cash balance of \$133,740.

**SUPPLEMENTARY FINANCIAL INFORMATION**

**DESERT GREENS 2001 HOMEOWNERS ASSOCIATION  
SCHEDULE OF RESERVE ANALYSIS  
DECEMBER 31, 2016**

**(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 - 18	\$ 408,288
Pool and Spa Area	0 - 19	31,112
Clubhouse	0 - 19	61,843
Wall, Fences, and Gates	0 - 17	<u>56,050</u>
		<u>\$ 557,293</u>

At December 31, 2016, the Association had \$333,662 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, 2016**

<u>OPERATING FUND</u>	<u>ACTUAL</u>	<u>BUDGET</u> (UNAUDITED)	VARIANCE FAVORABLE/ (UNFAVORABLE) (UNAUDITED)
<b>REVENUES</b>			
Member Assessments	\$ 330,492	\$ 328,500	\$ 1,992
Late Fees	580	1,200	(620)
RV Parking Fees	8,750	8,000	750
Other Income	6,259	5,600	659
	<u>346,081</u>	<u>343,300</u>	<u>2,781</u>
<b>EXPENSES</b>			
Repairs and Maintenance	38,851	42,325	3,474
Landscaping	7,721	9,825	2,104
Insurance	11,569	12,275	706
Legal and Accounting	6,437	8,420	1,983
Bad Debts Expense	12,340	1,100	(11,240)
Depreciation	2,372	-	(2,372)
Office Expense	1,163	1,000	(163)
Salaries and Wages	115,004	125,700	10,696
Payroll Burden and Benefits	13,301	16,420	3,119
Telephone	3,687	4,940	1,253
Trash Removal	21,985	22,000	15
Electricity	30,130	37,900	7,770
Water	66,373	66,700	327
Community Activities	1,273	1,325	52
Miscellaneous	1,537	160	(1,377)
	<u>333,743</u>	<u>350,090</u>	<u>16,347</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ 12,338</b>	<b>\$ (6,790)</b>	<b>\$ 19,128</b>
<b><u>RESERVE FUND</u></b>			
<b>REVENUES</b>			
Member Assessments	\$ 42,000	\$ 42,000	-
Interest Income	1,208	-	1,208
	<u>43,208</u>	<u>42,000</u>	<u>1,208</u>
<b>EXPENSES</b>			
Common Area Repairs	6,200	68,663	62,463
Bank Charges	52	-	(52)
	<u>6,252</u>	<u>68,663</u>	<u>62,411</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ 36,956</b>	<b>\$ (26,663)</b>	<b>\$ 63,619</b>

(See Independent Auditors' Report)