

MARLEY PARK COMMUNITY ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2015

**MARLEY PARK COMMUNITY ASSOCIATION, INC.
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YEAR ENDED DECEMBER 31, 2015**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Marley Park Community Association, Inc.
Scottsdale, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Marley Park Community Association, Inc., which comprise the balance sheet as of December 31, 2015, 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.

Auditors' 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 auditors' 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.

Board of Directors
Marley Park Community Association, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marley Park Community Association, Inc. as of December 31, 2015, and the results of its operations and its cash flows for the year ended in accordance 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 Required Supplementary Information on Future Major Repairs and Replacements (Unaudited) 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. 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.



CliftonLarsonAllen LLP

Phoenix, Arizona
September 30, 2016

MARLEY PARK COMMUNITY ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2015

ASSETS	Operating Fund	Replacement Fund	Total
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 313,899	\$ 17,795	\$ 331,694
Restricted Cash - Veterans Commemorative Plaza	6,318	-	6,318
Assessments Receivable, Net	80,149	-	80,149
Due from Developer	22,137	-	22,137
Accounts Receivable - Related Party	13,634	-	13,634
Prepaid Expenses	5,580	-	5,580
Total Current Assets	<u>441,717</u>	<u>17,795</u>	<u>459,512</u>
PROPERTY AND EQUIPMENT			
Office Furniture, Fixtures, and Equipment	633,201	-	633,201
Vehicles	16,598	-	16,598
Total	<u>649,799</u>	<u>-</u>	<u>649,799</u>
Less: Accumulated Depreciation and Amortization	<u>(582,029)</u>	<u>-</u>	<u>(582,029)</u>
Net Property and Equipment	67,770	-	67,770
Total Assets	<u>\$ 509,487</u>	<u>\$ 17,795</u>	<u>\$ 527,282</u>
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts Payable	\$ 112,277	\$ -	\$ 112,277
Accounts Payable - Related Party	29,967	-	29,967
Payable to Veterans Commemorative Plaza	6,318	-	6,318
Assessments Received in Advance	76,169	-	76,169
Total Current Liabilities	<u>224,731</u>	<u>-</u>	<u>224,731</u>
FUND BALANCES			
Total Liabilities and Fund Balances	<u>\$ 509,487</u>	<u>\$ 17,795</u>	<u>\$ 527,282</u>

See accompanying Notes to Financial Statements.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 1,311,057	\$ -	\$ 1,311,057
Collection Fee	7,770	-	7,770
Disclosure Fee	10,362	-	10,362
Facility Rental	39,070	-	39,070
Mosaic Park Neighborhood Assessments	98,280	-	98,280
Builder Assessments	261,732	-	261,732
Late Fees and Fines	17,000	-	17,000
Working Capital	44,244	-	44,244
Community Enhancement	57,485	-	57,485
Transfer Fee Income	37,675	-	37,675
Legal Fees Assessed	22,303	-	22,303
Miscellaneous	10,798	-	10,798
Interest and Other Income	1,158	14	1,172
Total Revenues	1,918,934	14	1,918,948
EXPENSES			
General and Administrative	523,767	-	523,767
Community Building	95,245	-	95,245
Communications	25,907	-	25,907
Landscape Services	643,212	-	643,212
Utilities	159,157	-	159,157
Repairs and Maintenance	20,456	-	20,456
Special Service Areas	68,297	-	68,297
Facilities	145,599	-	145,599
Depreciation	50,323	-	50,323
Major Repair and Replacement	-	50,332	50,332
Total Expenses	1,731,963	50,332	1,782,295
EXCESS OF REVENUES OVER EXPENSES			
(EXPENSES OVER REVENUES)	186,971	(50,318)	136,653
Fund Balances - Beginning	112,110	53,788	165,898
Transfers Between Funds	(14,325)	14,325	-
FUND BALANCES - ENDING	\$ 284,756	\$ 17,795	\$ 302,551

See accompanying Notes to Financial Statements.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Assessments, Fees, Fines and Other Receipts	\$ 1,956,119	\$ -	\$ 1,956,119
Cash Received from Interest	1,158	14	1,172
Cash Paid to Vendors for Services	(1,681,590)	(50,332)	(1,731,922)
Net Cash Provided (Used) by Operating Activities	<u>275,687</u>	<u>(50,318)</u>	<u>225,369</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers Between Funds	(14,325)	14,325	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted Cash - Veterans Commemorative Plaza	(3,381)	-	(3,381)
Redemption of Certificates of Deposits	-	25,702	25,702
Net Cash Provided (Used) by Investing Activities	<u>(3,381)</u>	<u>25,702</u>	<u>22,321</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	257,981	(10,291)	247,690
Cash and Cash Equivalents - Beginning of Year	55,918	28,086	84,004
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 313,899</u>	<u>\$ 17,795</u>	<u>\$ 331,694</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Excess of Revenues over Expenses (Expenses Over Revenues)	\$ 186,971	\$ (50,318)	\$ 136,653
Adjustments to Excess Reconcile Revenues Over Expenses (Expenses Over Revenues) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	50,323	-	50,323
Assessment Receivable Recovery	(11,783)	-	(11,783)
Decrease in:			
Assessments Receivable, Net	27,256	-	27,256
Accounts Receivable - Related Party	14,842	-	14,842
Prepaid Expenses	4,593	-	4,593
Increase (Decrease) in:			
Accounts Payable	11,364	-	11,364
Accounts Payable - Related Party	(19,288)	-	(19,288)
Payable to Veterans Commemorative Plaza	3,381	-	3,381
Assessments Received in Advance	8,028	-	8,028
Net Cash Provided (Used) by Operating Activities	<u>\$ 275,687</u>	<u>\$ (50,318)</u>	<u>\$ 225,369</u>

See accompanying Notes to Financial Statements.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Marley Park Community Association, Inc., (the Association) is a nonprofit organization incorporated on October 9, 2003. The primary purpose of the Association is to manage the operations and preserve and maintain the common elements. The Association is located in Surprise, Arizona and will be comprised of approximately 3,700 single-family homes on 957 acres upon completion. As of December 31, 2015, the Association consists of approximately 1,115 occupied units and 702 builder owned units. The board of directors is appointed by the Developer as provided for in the organizational documents. The board of directors will be appointed until such time as the Association documents require an election.

Fund Accounting

The financial statements of the Association are prepared on the accrual basis of accounting, which recognizes revenue when earned, regardless of when received, and expenses when incurred, regardless of when paid.

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 financial statements have been prepared using fund accounting (although not required). 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.

Liquidity

Assets are presented in the Association's balance sheet according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash is defined as demand deposits with original maturities of three months or less. The Association maintains bank accounts with balances which, at times, may exceed federally insured limits. The Association has not experienced any losses on such accounts, and believes it is not exposed to any significant risk on bank deposit accounts.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments

The Association's current policy is to assess each unit owner monthly, a fixed amount based on the annual budget determined by the board of directors (board). Each unit owner's assessment is based on a proportional fractional share of common element income and expense. Developer receivables are due from the developer, Marley Park Phase I LLC, who is subject to monthly operating subsidies due to the Association in accordance with the Association's governing documents. Builder receivables are assessments due from home builders on unsold lots under construction or held for development purposes by the builder.

The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 30 days, at which time the Association charges late fees. The Association pursues collection for accounts delinquent 90 days or more. Receivables are reviewed regularly and the Association establishes an allowance for doubtful accounts on receivables based on an estimate of accounts which will not be fully collected. Homeowner and Builder accounts are written-off when either enters bankruptcy or foreclosure. Developer receivables are reviewed for collectibility on a monthly basis. Any excess assessments and subsidies at year-end are retained by the Association for use in the succeeding year.

The Association has receivables which are subject to significant concentration of credit risk. Homeowner receivables are all due from the Association's members, who reside within a relatively small geographic area. The Association has provisions to assess late fees and lien the real property. If these provisions fail, the Association could incur a loss equal to the receivables.

Commonly Owned Assets

Real common property acquired by the Association is not capitalized because the properties are owned by the individual unit owners in common and not by the Association, therefore, its use and disposition by the Association's board is restricted. Common property not capitalized includes the Heritage pool house land, Heritage pool house building, Heritage pool house land improvements, Heritage club, trails, parks, landscape, and landscape rights-of-way.

Property and Equipment

Property and equipment, with an initial cost of more than \$1,000 and an estimated useful life greater than one year, are capitalized at cost. Depreciation and amortization are provided using primarily the straight-line method over the following estimated useful lives:

Office Furniture, Fixtures, and Equipment	3-10 Years
Vehicles	5 Years

Depreciation in the amount of \$50,323 was charged to statement of revenues, expenses, and changes in fund balance for the year ended December 31, 2015.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2015. 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 includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 6.97% by the State of Arizona.

The Association follows the income tax standard regarding recognition and measurement of uncertain tax provisions. Management believes the implementation of this standard has no impact on the Association's financial statements.

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.

Risks and Uncertainties

The Association is subject to a concentration of risk in the event of financial distress due to the current economic climate of the Phoenix metropolitan area housing market, which may affect the ability of the Association's members and builders to pay assessments. If assessments are unable to be collected, the Association's results of operations, financial position and cash flows could be adversely affected.

Subsequent Events

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 30, 2016, the date the financial statements were available to be issued.

NOTE 2 ASSESSMENTS RECEIVABLE

As of December 31, 2015, accounts receivable consisted of the following:

	Amount
Homeowners	\$ 192,288
Builders	11,539
Total Assessments Receivable	<u>203,827</u>
Less: Allowance for Doubtful Accounts	(123,678)
Assessments Receivable, Net	<u><u>\$ 80,149</u></u>

**MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance totaling \$76,169 at December 31, 2015 consist of 2016 assessments received by the Association prior to January 1, 2016.

NOTE 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements unless the members determine by majority vote to fund no reserves or less than adequate reserves. The Association's replacement fund is utilized to accumulate funds for capital expenditures and deferred maintenance by an allocation of the maintenance fee assessment charged to each unit owner specifically designated for the fund in the annual budget. Deductions from the fund are recorded as costs as incurred to meet the objective for which the fund was established.

Because funds are not accumulated by component, useful lives are estimated, and changes in replacement costs, amounts accumulated in the fund may not be adequate to meet all future needs for major repairs and replacements. In addition, the timing and amount of actual expenditures will vary and these variations may be material. When funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay the repair or replacement until funds are available.

NOTE 5 RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, Marley Park Community Association, Inc. had the following transactions with related parties:

The Association receives subsidies from the Developer, Marley Park Phase I LLC, to operate the Association until such time as there are enough member assessments to cover the Association's operating expenses. There were no subsidies in 2015, however there is \$22,137 due from developer at December 31, 2015, for underfunding in the prior years.

Total Operating Fund Expenditures	\$ 1,731,963
Less: Association Income other than Developer Funding	<u>(1,918,934)</u>
Total Developer Funding Required	-
Less: Funding Provided by the Developer in 2015	<u>-</u>
Prior Balance Due from Developer for Under Funding	<u>22,137</u>
Total Balance Due from Developer for Under Funding	<u><u>\$ 22,137</u></u>

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)

Management expense incurred in 2015, which was paid to DMB Associates LLC (a related party through common ownership) from the Association, amounted to \$334,197. The Association had an outstanding payable at December 31, 2015 of \$29,967 due to DMB Associates LLC and a \$13,634 receivable due to various homeowner associations that are under the same management of DMB Associates LLC.

NOTE 6 LITIGATION

The Association may become involved in claims and pending litigation arising in the normal course of its operation. In the opinion of management, the effect of such matters will not have a material adverse effect on the Association's financial position or liquidity. Therefore, no provision has been made in the accompanying financial statements for losses, if any, that might result from the ultimate outcome of the matters.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2015

The Board of Directors directed Great Boards, LLC to conduct an asset reserve study in October 2015 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 at the date of the study. The estimates were made from an inspection of the property at that time. The asset reserve study uses an assumption of 2.50% inflation and an annual investment rate of 0.43%. The following table is based on the 2015 asset reserve study and presents significant information about the components of common property.

A summary of the replacement fund components as of December 31, 2015 is as follows:

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	Replacement Fund Balance 12/31/15
Heritage Club	1-33	\$ 1,999,118	
Heritage Pool House	1-33	2,475,771	
Heritage Recreation	1-20	283,428	
Irrigation & Landscaping	1-12	3,931,484	
Parcels 1 & 2	0-33	1,391,787	
Parcels 3 4 5 & 6	0-33	922,361	
Parcels 7 8 & 9	2-33	1,381,632	
Parcels 11 & 12	7-35	488,312	
Parking and Alleyways	0-30	1,858,928	
Pump Station	0-24	1,784,839	
Irrigation Equipment	4-12	156,492	
Painting and Repairs	2-8	524,359	
Roofing	2-32	2,898,291	
Total		<u>\$ 20,096,802</u>	<u>\$ 17,795</u>