

MARLEY PARK COMMUNITY ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2017

**MARLEY PARK COMMUNITY ASSOCIATION, INC.
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YEAR ENDED DECEMBER 31, 2017**

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Marley Park Community Association, Inc., which comprise the balance sheet as of December 31, 2017, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Marley Park Community Association, Inc.

Required Supplementary Information

The objective of the review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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. The information is the representation of management. We have not audited or reviewed such information and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 6, 2018

MARLEY PARK COMMUNITY ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

ASSETS	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 340,442	\$ 364,401	\$ 704,843
Restricted Cash - Veterans Commemorative Plaza	90	-	90
Assessments Receivable, Net	83,600	-	83,600
Total Current Assets	<u>424,132</u>	<u>364,401</u>	<u>788,533</u>
PROPERTY AND EQUIPMENT			
Office Furniture, Fixtures, and Equipment	639,959	-	639,959
Vehicles	16,598	-	16,598
Total	<u>656,557</u>	<u>-</u>	<u>656,557</u>
Less: Accumulated Depreciation and Amortization	<u>(629,431)</u>	<u>-</u>	<u>(629,431)</u>
Net Property and Equipment	<u>27,126</u>	<u>-</u>	<u>27,126</u>
 Total Assets	 <u>\$ 451,258</u>	 <u>\$ 364,401</u>	 <u>\$ 815,659</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 54,278	\$ 67,668	\$ 121,946
Accounts Payable - Related Party	8,066	-	8,066
Assessments Received in Advance	58,140	-	58,140
Payable to Veterans Commemorative Plaza	90	-	90
Total Liabilities	<u>120,574</u>	<u>67,668</u>	<u>188,242</u>
FUND BALANCES	<u>330,684</u>	<u>296,733</u>	<u>627,417</u>
 Total Liabilities and Fund Balances	 <u>\$ 451,258</u>	 <u>\$ 364,401</u>	 <u>\$ 815,659</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, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$ 1,593,670	\$ -	\$ 1,593,670
Builder Assessments	337,584	-	337,584
Mosaic Park Neighborhood Assessments	102,060	-	102,060
Community Enhancement	83,556	-	83,556
Working Capital	86,376	-	86,376
Facility Rental	31,985	-	31,985
Legal Fees Assessed	18,604	-	18,604
Late Fees and Fines	6,503	-	6,503
Miscellaneous	15,145	-	15,145
Other Income	2,308	-	2,308
Total Revenues	<u>2,277,791</u>	<u>-</u>	<u>2,277,791</u>
EXPENSES			
General and Administrative	564,071	-	564,071
Community Building	97,026	-	97,026
Communications	30,810	-	30,810
Landscape Services	796,528	-	796,528
Utilities	164,572	-	164,572
Repairs and Maintenance	53,017	-	53,017
Special Service Areas	69,698	-	69,698
Facilities	181,478	-	181,478
Depreciation	10,163	-	10,163
Major Repairs and Replacements	-	93,412	93,412
Total Expenses	<u>1,967,363</u>	<u>93,412</u>	<u>2,060,775</u>
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	310,428	(93,412)	217,016
Fund Balances - Beginning of Year	241,251	169,150	410,401
Transfers Between Funds	<u>(220,995)</u>	<u>220,995</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 330,684</u>	<u>\$ 296,733</u>	<u>\$ 627,417</u>

See accompanying Notes to Financial Statements.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received from Assessments, Fees, Fines, and Other Receipts	\$ 2,271,989	\$ -	\$ 2,271,989
Cash Received from Interest	2,308	-	2,308
Cash Paid to Vendors for Services	(1,940,220)	(25,744)	(1,965,964)
Net Cash Provided (Used) by Operating Activities	<u>334,077</u>	<u>(25,744)</u>	<u>308,333</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers Between Funds	(220,995)	220,995	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Restricted Cash - Veterans Commemorative Plaza	1,502	-	1,502
Acquisition of Capital Assets	(6,758)	-	(6,758)
Net Cash Used by Investing Activities	<u>(5,256)</u>	<u>-</u>	<u>(5,256)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	107,826	195,251	303,077
Cash and Cash Equivalents - Beginning of Year	<u>232,616</u>	<u>169,150</u>	<u>401,766</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 340,442</u>	<u>\$ 364,401</u>	<u>\$ 704,843</u>
RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Excess of Revenues Over Expenses (Expenses Over Revenues)	\$ 310,428	\$ (93,412)	\$ 217,016
Adjustments to Reconcile Excess Revenues Over Expenses (Expenses Over Revenues) to Net Cash Provided (Used) by Operating Activities:			
Depreciation and Amortization	10,163	-	10,163
Provision for Bad Debt	2,497	-	2,497
Assessment Receivable Recovery (Write-off)	(22,400)	-	(22,400)
Decrease in:			
Assessments Receivable, Net	27,509	-	27,509
Accounts Receivable - Related Party	12,426	-	12,426
Prepaid Expenses	383	-	383
Increase (Decrease) in:			
Accounts Payable	16,009	67,668	83,677
Accounts Payable - Related Party	2,090	-	2,090
Payable to Veterans Commemorative Plaza	(1,502)	-	(1,502)
Assessments Received in Advance	(23,526)	-	(23,526)
Net Cash Provided (Used) by Operating Activities	<u>\$ 334,077</u>	<u>\$ (25,744)</u>	<u>\$ 308,333</u>

See accompanying Notes to Financial Statements.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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, 2017, the Association consists of approximately 1,303 occupied units and 245 builder owned units. The board of directors is appointed and/or elected based on the governing documents.

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. 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 accompanying 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

Cash and cash equivalents include highly liquid debt instruments and other short-term investments with an original maturity of three months or less.

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 homebuilders on unsold lots under construction or held for development purposes by the builder.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments (Continued)

The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 15 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 expense in the amount of \$10,163 was charged to statement of revenues, expenses, and changes in fund balances for the year ended December 31, 2017.

Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2017. 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.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The Association follows the income tax standard regarding recognition and measurement of uncertain tax provisions. Management believes 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.

NOTE 2 ASSESSMENTS RECEIVABLE

As of December 31, 2017, assessments receivable consisted of the following:

Homeowners	\$ 99,002
Builders	18,020
Total Assessments Receivable	<u>117,022</u>
Less: Allowance for Doubtful Accounts	(33,422)
Assessments Receivable, Net	<u>\$ 83,600</u>

NOTE 3 ASSESSMENTS RECEIVED IN ADVANCE

Assessments received in advance totaling \$58,140 at December 31, 2017 consist of 2018 assessments received by the Association prior to January 1, 2018.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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, 2017, the Association 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 2017 and no prior year balance due from the Developer.

Total Operating Fund Expenditures	\$ 1,967,363
Less: Association Income other than Developer Funding	(2,277,791)
Total Developer Funding Required	<u>-</u>
Less: Funding Provided by the Developer in 2017	-
Prior Balance Due from Developer for Under Funding	-
Total Balance Due from Developer for Under Funding	<u><u>\$ -</u></u>

Management expense incurred in 2017, which was paid to DMB Community Life, Inc. (a related party through common ownership) from the Association, amounted to \$399,672. The Association had an outstanding payable at December 31, 2017 of \$8,066 due to DMB Community Life, Inc.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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.

NOTE 7 SUBSEQUENT EVENT

Subsequent to year-end, the Developer and DMB Community Life, Inc. were sold resulting in cession of common ownership. As such, as of January 1, 2018, DMB Community Life, Inc. is no longer a related party to Marley Park.

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 6, 2018, the date the financial statements were available to be issued.

MARLEY PARK COMMUNITY ASSOCIATION, INC.
REQUIRED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT)

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, 2017 is as follows:

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	Replacement Fund Balance 12/31/17
Heritage Club	0-31	\$ 1,999,118	
Heritage Pool House	0-31	2,475,771	
Heritage Recreation	0-18	283,428	
Irrigation and Landscaping	0-10	3,931,484	
Parcels 1 and 2	0-31	1,391,787	
Parcels 3, 4, 5, and 6	0-31	922,361	
Parcels 7, 8, and 9	0-31	1,381,632	
Parcels 11 and 12	5-33	488,312	
Parking and Alleyways	0-28	1,858,928	
Pump Station	0-22	1,784,839	
Irrigation Equipment	2-10	156,492	
Painting and Repairs	0-6	524,359	
Roofing	0-30	2,898,291	
Total		<u>\$ 20,096,802</u>	<u>\$ 296,733</u>