

**Financial Statements**

**Villas of Cave Creek  
Owners Association**

**For the Year Ended  
December 31, 2021**

# Villas of Cave Creek Owners Association

## Contents

December 31, 2021

(Summarized Totals for 2020)

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## **Independent Auditor's Report**

To the Board of Directors  
and Management  
of Villas of Cave Creek  
Owners Association  
Cave Creek, Arizona

### **Opinion**

We have audited the accompanying financial statements of Villas of Cave Creek Owners Association, which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance, other operating revenue and expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Villas of Cave Creek Owners Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Villas of Cave Creek Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Other Matter**

The prior year summarized comparative information has been derived from the Association's December 31, 2020 financial statements and, in our report dated June 8, 2021, we expressed an unqualified opinion on those financial statements.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Villas of Cave Creek Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Villas of Cave Creek Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Villas of Cave Creek Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

FITZGERALD & ASSOCIATES, INC. CPAs

Irvine, California  
March 4, 2022

# Villas of Cave Creek Owners Association

## Balance Sheet

December 31, 2021

(Summarized Totals for 2020)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Assets</b>				
Cash, including interest-bearing deposits	\$ 592,354	\$ 261,458	\$ 853,812	\$ 756,155
Accounts receivable, net	24,304	-	24,304	18,285
Prepaid expenses	9,838	-	9,838	9,646
Utility deposit	41,290	-	41,290	41,290
Interfund borrowing	(42,068)	42,068	-	-
Total assets	<u>\$ 625,718</u>	<u>\$ 303,526</u>	<u>\$ 929,244</u>	<u>\$ 825,376</u>
<b>Liabilities and Fund Balances</b>				
Accounts payable	\$ 22,701	\$ 5,946	\$ 28,647	\$ 14,170
Accrued expenses	97,392	-	97,392	67,733
Deferred revenue	633	-	633	-
Prepaid assessments	337,716	-	337,716	350,702
Total liabilities	<u>458,442</u>	<u>5,946</u>	<u>464,388</u>	<u>432,605</u>
Fund balances	<u>167,276</u>	<u>297,580</u>	<u>464,856</u>	<u>392,771</u>
Total liabilities and fund balances	<u>\$ 625,718</u>	<u>\$ 303,526</u>	<u>\$ 929,244</u>	<u>\$ 825,376</u>

The accompanying notes are an integral part of these financial statements.

# Villas of Cave Creek Owners Association

## Statement of Revenue, Expenses, and Changes in Fund Balances For the Year Ended December 31, 2021 (Summarized Totals for 2020)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Revenue</b>				
Regular assessments	\$ 1,071,878	\$ 113,574	\$ 1,185,452	\$ 1,145,759
Rental income	175,471	-	175,471	91,971
Investment income	225	2,498	2,723	14,740
Other revenue (Schedule)	35,826	-	35,826	17,381
Total revenue	<u>1,283,400</u>	<u>116,072</u>	<u>1,399,472</u>	<u>1,269,851</u>
<b>Expenses</b>				
Bad debt expense	160,763	-	160,763	162,495
Front desk	92,216	-	92,216	89,552
General and administrative (Schedule)	380,177	-	380,177	355,194
Housekeeping	236,772	-	236,772	165,960
Income tax expense	2,029	-	2,029	4,947
Insurance	47,552	-	47,552	40,076
General maintenance	189,889	-	189,889	190,657
Repairs and replacements	-	102,346	102,346	133,085
Reserve study	-	1,720	1,720	-
Utilities	113,923	-	113,923	98,851
Total expenses	<u>1,223,321</u>	<u>104,066</u>	<u>1,327,387</u>	<u>1,240,817</u>
Excess revenue (expenses)	60,079	12,006	72,085	29,034
Fund balances, beginning of year	<u>107,197</u>	<u>285,574</u>	<u>392,771</u>	<u>363,737</u>
Fund balances, end of year	<u>\$ 167,276</u>	<u>\$ 297,580</u>	<u>\$ 464,856</u>	<u>\$ 392,771</u>

The accompanying notes are an integral part of these financial statements.

# Villas of Cave Creek Owners Association

## Statement of Cash Flows For the Year Ended December 31, 2021 (Summarized Totals for 2020)

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Cash Flows From Operating Activities</b>				
Excess revenue (expenses)	\$ 60,079	\$ 12,006	\$ 72,085	\$ 29,034
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Bad debt expense (recovery)	160,763	-	160,763	162,495
Changes in:				
Accounts receivable	(166,782)	-	(166,782)	(167,474)
Prepaid expenses	(192)	-	(192)	58
Accounts payable	8,531	5,946	14,477	(34,952)
Accrued expenses	29,659	-	29,659	37,737
Deferred revenue	633	-	633	0
Prepaid assessments	(12,986)	-	(12,986)	(3,318)
Net cash provided (used) by operating activities	<u>79,705</u>	<u>17,952</u>	<u>97,657</u>	<u>23,580</u>
<b>Cash Flows From Investing Activities</b>				
Proceeds from sale of marketable securities	-	-	-	100,000
Interfund borrowing	42,068	(42,068)	-	-
Net cash provided (used) by investing activities	<u>42,068</u>	<u>(42,068)</u>	<u>-</u>	<u>100,000</u>
Net increase (decrease) in cash	121,773	(24,116)	97,657	123,580
Cash, beginning of year	<u>470,581</u>	<u>285,574</u>	<u>756,155</u>	<u>632,575</u>
Cash, end of year	<u>\$ 592,354</u>	<u>\$ 261,458</u>	<u>\$ 853,812</u>	<u>\$ 756,155</u>

The accompanying notes are an integral part of these financial statements.



# Villas of Cave Creek Owners Association

## Statement of Other Operating Revenue and Expenses For the Year Ended December 31, 2021 (Summarized Totals for 2020)

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	<u>2021</u> <u>Total</u>	<u>2020</u> <u>Total</u>
<b>Other Revenue</b>		
Late fees to owners	\$ 2,895	\$ 2,585
Interest charges to owners	4,522	2,882
Deed back income	9,125	6,650
Other	19,284	5,264
	<u>          </u>	<u>          </u>
Total other revenue	<u>\$ 35,826</u>	<u>\$ 17,381</u>
<b>General and Administrative Services</b>		
Cable television	\$ 5,266	\$ 5,155
Credit card fees	19,068	14,279
Internet	5,221	6,895
Foreclosure expense	9,025	8,125
Legal and professional fees	11,366	8,320
Office supplies	14,750	10,274
Management fees	143,961	117,970
Printing and postage	3,304	4,314
Property taxes	20,037	19,738
Reservation service fees	34,725	34,245
Telephone	10,806	11,773
Wages and related	84,695	88,972
Other general and administrative	17,953	25,134
	<u>          </u>	<u>          </u>
Total general and administrative services	<u>\$ 380,177</u>	<u>\$ 355,194</u>

The accompanying notes are an integral part of these financial statements.

# Villas of Cave Creek Owners Association

## Notes to Financial Statements December 31, 2021 (Summarized Totals for 2020)

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### **1. Organization and Other Matters**

Villas of Cave Creek Owners Association is a nonprofit mutual benefit corporation organized in Arizona in 1996 and is governed by a member-elected Board of Directors. The Association is an interval ownership Condominium consisting of 25 units (1,300 unit-weeks), located in Cave Creek, Arizona.

### **2. Significant Accounting Policies**

#### *Comparative Information*

The financial statements include certain 2020 comparative information. With respect to the balance sheet, the statement of revenue, expenses, and changes in fund balances, other comprehensive income, and other operating income and expenses, such prior year information is not presented by fund. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended December 31, 2020 from which the summarized information was derived.

#### *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. These estimates and assumptions affect the reported amounts of assets and liabilities at the reporting date and revenues, and expenses during the reporting period. Actual results could differ from those estimates.

#### *Fund Accounting*

The Association's governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Association maintains its records using fund accounting. They classify transactions for accounting and reporting purposes in funds established according to their nature and purpose.

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to account for financial resources designated for future major repairs and replacements.

#### *Major Repairs and Replacements*

Members pay a portion of their Association dues for reserve expenses, generally major repairs and replacements. The Association deposits these funds in a separate interest-bearing account. See Note 7 for a further discussion of reserves.

# Villas of Cave Creek Owners Association

## Notes to Financial Statements

December 31, 2021

(Summarized Totals for 2020)

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### 2. *Significant Accounting Policies* (concluded)

#### *Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Association considers all temporary cash investments with a maturity of three months or less to be cash equivalents.

#### *Member Assessments*

Members are subject to annual assessments to provide funds for operating expenses and future major repairs and replacements. Assessments receivable at the reporting dates represent amounts due from members. The Association establishes an allowance for all unpaid accounts with delinquent balances outstanding for more than 90 days. The Association's policy is to accrue interest on all amounts due, including delinquent assessments and collection charges commencing 30 days and late fees commencing 10 days after assessments become due. Interest and related charges are recorded as income when billed to the owner. In addition, the Association's policies permit various collection remedies for delinquent assessments, which include filing liens, foreclosing on the unit owner, and obtaining judgment on other assets of the owner. Any excess assessments at year-end are retained by the Association for use in the succeeding year. See Note 4 for additional details on assessments receivable amounts.

The Association recognizes revenue from members as the related performance obligations are satisfied. The Association's determination is that the performance obligation for replacement reserve assessment revenue is the funding of the budgeted assessments to the replacement fund so that when the funds need to be expended, the funds are available. Therefore, if the budgeted amount is transferred to reserve bank accounts, then the performance obligation has been met and the related replacement reserve revenue is recognized. If the Association does not transfer the budgeted reserve assessment, a contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

#### *Property and Equipment*

The Association conforms to industry practice in recognizing real property and common areas as assets. Based on this practice, the Association only capitalizes property to which the Association has title and to which the board of directors has discretion to dispose of the property and retain the proceeds for the Association use. Other real property and common areas are owned by the members in common and not by the Association and therefore are not capitalized as assets. Repairs, replacements, and improvements of common property are expensed as incurred.

#### *Prepaid Assessments*

Prepaid assessments consist of members' annual assessments received in advance. The Association recognizes these amounts as income when they are earned in the subsequent year.

# Villas of Cave Creek Owners Association

## Notes to Financial Statements December 31, 2021 (Summarized Totals for 2020)

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### 3. Income Taxes

Homeowner associations may elect to be taxed as regular corporations or as timeshare associations. The Association elected to be taxed as a timeshare association in accordance with Internal Revenue Code Section 528 for the years ended December 31, 2021 and 2020. Under that Section, the Association is not taxed on assessments to owners and other income received from association members solely as a function of their membership in the Association. The Association is taxed for federal purposes at the rate of 32% and taxed for state purposes at a rate of 4.9% on its nonexempt function income, such as interest and rental income.

The Association's state and federal income tax filings are subject to audit by various taxing authorities. While the Association currently has no income tax returns under audit, the open tax audit periods, for which the statute of limitations has not expired, are 2018 through 2021.

### 4. Accounts Receivable

Accounts receivable at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Regular assessments	\$1,668,576	\$756,822
Due from Trading Places International	24,304	18,285
Allowance for doubtful accounts	<u>(1,668,576)</u>	<u>(756,822)</u>
Accounts receivable, net	<u>\$24,304</u>	<u>\$18,285</u>

### 5. Prepaid Expenses

Prepaid expenses at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Insurance	\$6,102	\$8,572
Other prepaid expenses	-0-	1,074
Income taxes	<u>3,736</u>	<u>-0-</u>
Total prepaid expenses	<u>\$9,838</u>	<u>\$9,646</u>

# Villas of Cave Creek Owners Association

## Notes to Financial Statements December 31, 2021 (Summarized Totals for 2020)

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### 6. Accrued Expenses

Accrued expenses at the reporting dates consist of the following amounts:

	<u>2021</u>	<u>2020</u>
Due to Trading Places International	\$40,911	\$-0-
Room tax	3,140	1,815
Income taxes payable	-0-	1,501
Accrued payroll and related	53,341	60,462
Other accrued expenses	-0-	<u>3,955</u>
Total accrued expenses	<u>\$97,392</u>	<u>\$67,733</u>

### 7. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

Association Reserve conducted a study in August 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent and interest of 1 percent, net of taxes, on amounts funded for future major repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

In 2020, the board of directors decided to fund 33 percent of the amount recommended by the study. Accordingly, \$113,574 was included in the 2021 budget. For that reason, and because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional replacement funds are needed, the Board may elect to increase annual assessments, pass special assessments, or delay major repairs and replacements until funds are available.

### 8. Supplemental Cash Flow Disclosures

Cash flows from operating activities include state and federal income tax payments of \$6,994 and \$4,505 for the years ended December 31, 2021 and 2020, respectively.

# Villas of Cave Creek Owners Association

## Notes to Financial Statements December 31, 2021 (Summarized Totals for 2020)

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### 9. Commitments and Contingencies

The Association renewed its management agreement with Trading Places International (TPI) beginning January 1, 2021 and expiring on December 31, 2023. The contract automatically renews for successive additional three-year terms unless terminated earlier by majority of the Association board members within a one hundred twenty-day window before the expiration of the then current term. TPI will provide administrative, financial, and accounting services for the Association.

The future minimum payment to TPI under the agreement for each of the next 5 years and in the aggregate are as follows:

Year Ended December 31,	
2022	\$137,231
2023	137,231
2024	137,231
2025	-0-
2026	-0-
Thereafter	-0-
Total	<u>\$411,693</u>

### 10. Financial Instruments

Periodically, the Association has amounts on deposit with financial institutions that exceed the FDIC depository insurance limits but are insured with secondary insurance coverages. At December 31, 2021 and 2020, the balance in excess of FDIC coverage were \$47,679 and \$63,215, respectively. The Association has not experienced any loss as a result of those deposits in the past and does not expect any losses on such deposits in the future.

### 11. Concentration of Credit Risk

The Association's major source of revenue is assessments from members. Two entities own multiple intervals at the Association. The following is information regarding the two entities at the reporting dates:

	<u>2021</u>	<u>2020</u>
Assessments receivable at December 31	<u>\$-0-</u>	<u>\$-0-</u>
Percent of total assessments receivable	<u>0%</u>	<u>0%</u>
Assessment revenue for the year ended December 31	<u>\$434,051</u>	<u>\$177,568</u>
Percent of total assessment revenue	<u>37%</u>	<u>15%</u>

# Villas of Cave Creek Owners Association

## Notes to Financial Statements

December 31, 2021

(Summarized Totals for 2020)

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### ***12. Subsequent Events***

Management has evaluated subsequent events through March 4, 2022, the date which the financial statements were available for issue

## Supplementary Information



# Villas of Cave Creek Owners Association

## Supplementary Information on Future Major Repairs and Replacements (Unaudited)

December 31, 2021

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Association Reserve conducted a study in August 2020 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 1%, net of taxes, on amounts funded for future major repairs and replacements.

The following table 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 August 2020 Replacement Cost</u>	<u>Estimated 2022 Annual Funding Requirement</u>	<u>Reserve Expenditures For the Year Ended 12/31/2021</u>	<u>Replacement Cash Balance at 12/31/2021</u>
Grounds	0-26	\$ 52,900	\$ 6,963	\$ -	\$ 38,888
Maintenance building	0-28	27,300	3,594	-	20,069
Pool area	0-10	79,700	10,491	-	58,590
Lobby	0-15	104,000	13,690	(1,919)	76,453
Recreation center	0-9	68,200	8,977	-	50,136
Units	0-28	2,338,100	307,765	(100,427)	1,718,803
Cash deficit		-	-	-	(1,701,481)
Totals		<u>\$ 2,670,200</u>	<u>\$ 351,480</u>	<u>\$ (102,346)</u>	<u>\$ 261,458</u>

See report of independent auditor.