PORCH & ASSOCIATES LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Fort Marcy Compound
Condominium Association, Inc.

Financial Statements, Supplementary Information
and
Independent Auditor's Report

December 31, 2015

Fort Marcy Compound Condominium Association, Inc.

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Independent Auditor's Report

Board of Directors
Fort Marcy Compound Condominium Association, Inc.
Santa Fe, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Marcy Compound Condominium Association, Inc. which comprise the balance sheet of 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.

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 of 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.

Board of Directors
Fort Marcy Compound Condominium Association, Inc.
Santa Fe, New Mexico

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Marcy Compound Condominium Association, Inc. as of December 31, 2015, 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.

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 10 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 information on future major repairs and replacements on common property on page 13 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.

Porch & Associates, LLC

Albuquerque, New Mexico
June 28, 2016

FORT MARCY COMPOUND CONDOMINIUM ASSOCIATION, INC.
BALANCE SHEET
December 31, 2015

	Operating Fund	Reserve Fund	**Total**
ASSETS			
Current Assets			
Cash and cash equivalents, undesignated	$ 175,057	-	**175,057**
Cash and cash equivalents, designated for future repairs and replacements	-	459,397	**459,397**
Assessments and other receivables, net	1,086	-	**1,086**
Special assessment receivable	2,999	-	**2,999**
Prepaid gross receipts taxes	6,075	-	**6,075**
Total current assets	185,217	459,397	**644,614**
Property and equipment, net	226,827	-	**226,827**
Intangible assets	30,576	-	**30,576**
Total assets	$ 442,620	459,397	**902,017**
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Current Liabilities			
Accounts payable	$ 32,337	38,253	**70,590**
Gross receipts tax payable	68	-	**68**
Assessments received in advance	20,492	-	**20,492**
Note payable	10,718	-	**10,718**
Total current liabilities	63,615	38,253	**101,868**
Refundable deposits	8,390	-	**8,390**
Note payable	250,072	-	**250,072**
Total liabilities	322,077	38,253	**360,330**
FUND BALANCES			
Unreserved, undesignated	120,543	-	**120,543**
Unreserved, designated for future replacements and repairs	-	421,144	**421,144**
Total fund balances	120,543	421,144	**541,687**
Total liabilities and fund balances	$ 442,620	459,397	**902,017**

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

FORT MARCY COMPOUND CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2015

	Operating Fund	Reserve Fund	**Total**
Revenues			
Assessments	$ 428,716	301,798	**730,514**
Other:			
Interest charges	1,445	-	**1,445**
Late fees and fines	3,115	-	**3,115**
Rental income	138,587	-	**138,587**
Interest income	162	1,142	**1,304**
Other income	3,711	-	**3,711**
Total revenues	575,736	302,940	**878,676**
Expenses			
Utilities	122,072	-	**122,072**
Other repairs and maintenance	87,772	-	**87,772**
Maintenance contracts	60,958	-	**60,958**
Taxes - gross receipts, property, franchise	33,553	-	**33,553**
Association management fees	31,420	-	**31,420**
Insurance	28,686	-	**28,686**
Alarm monitoring and lease	22,211	-	**22,211**
Director expense	15,000	-	**15,000**
Security services	14,826	-	**14,826**
Interest expense	13,322	-	**13,322**
Legal and professional fees	11,963	-	**11,963**
Replacements and major repairs	11,823	-	**11,823**
Depreciation	11,444	-	**11,444**
Postage and copies	3,307	-	**3,307**
Office and administrative	1,884	-	**1,884**
Meetings and communications	1,152	-	**1,152**
Gifts and donations	750	-	**750**
Miscellaneous	275	-	**275**
Bad debt expense	(755)	-	**(755)**
Reserve expense	-	146,359	**146,359**
Total expenses	471,663	146,359	**618,022**
Excess of revenues over expenses	104,073	156,581	**260,654**
Other Financing (Uses) Sources			
Transfers to reserve funds	(75,000)	-	**(75,000)**
Transfers from operating funds	-	75,000	**75,000**
Total other financing (uses) sources	(75,000)	75,000	**-**
Net change in fund balances	29,073	231,581	**260,654**
Fund balance, beginning of year	91,470	189,563	**281,033**
Fund balance, end of year	$ 120,543	421,144	**541,687**

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

FORT MARCY COMPOUND CONDOMINIUM ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

		Operating Fund	Reserve Fund	**Total**
Cash Flows From Operating Activities				
Net change in fund balances	$	104,073	156,581	**260,654**
Adjustments to reconcile the net change in fund balances to net cash provided by operating activities:				
Allowance for bad debts		(755)	-	**(755)**
Depreciation		11,445	-	**11,445**
Changes in assets and liabilities:				
Assessments and other receivables		2,379	-	**2,379**
Special assessment receivable		(890)	-	**(890)**
Accounts payable		9,314	38,253	**47,567**
Gross receipts tax payable		(1,231)	-	**(1,231)**
Assessments received in advance		(38,663)	-	**(38,663)**
Net cash provided by operating activities		85,672	194,834	**280,506**
Cash Flows From Financing Activities				
Principal payments on debt		(10,192)	-	**(10,192)**
Net change in cash and cash equivalents		75,480	194,834	**270,314**
Cash and cash equivalents, beginning of year		174,577	189,563	**364,140**
Cash and cash equivalents, end of year	$	250,057	384,397	**634,454**

Supplemental Disclosures of Cash Flow Information				
Cash payments for interest	$	13,322	-	**13,322**

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

NOTE 1. BACKGROUND INFORMATION

The Fort Marcy Compound Condominium Association, Inc. (Association) is a not-for-profit association incorporated in the state of New Mexico on May 16, 1979. The Association's primary purpose is to govern the operations, and to manage and maintain the common property within the development. The Association is located in Santa Fe, NM and consists of 100 condominium units, a clubhouse, pool, garages, and storage units. Office space, which is located in the clubhouse, is leased to a condominium management company. All owners of the individual condominium units are members of the Association. Two units in the compound are owned and operated by the Association.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representations of the Association's management who is responsible for their integrity and objectivity.

The Financial Accounting Standards Board (FASB) has issued the Accounting Standards Codification (ASC or the Codification) as the source of authoritative accounting principles recognized by the FASB to be used by nongovernmental entities when preparing financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Codification essentially reduces the GAAP hierarchy to two levels: authoritative and non-authoritative, with the Codification being authoritative GAAP.

Fund Accounting. The Association's governing documents provide certain guidelines governing its financial activities. In order to ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts 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 general operations of the Association.
>
> Reserve Fund – These funds are used to accumulate financial resources designated for future major repairs and replacements within the Association. Reserve funds are not co-mingled with operating funds.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents. The Association considers all currency on hand, demand deposits, money market funds, and certificates of deposit to be cash and cash equivalents.

Concentration of Credit Risk. The Association maintains its cash and cash equivalents in bank deposit, money market accounts and certificates of deposit which may at times exceed federally insured limits. The Associations balances exceeded federally insured limits at December 31, 2015 by $246,583. The Association has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Member Assessments. In order for the Association to preserve and maintain the community, each owner of a residential unit is required to pay base assessments to the Association for the unit's pro rata share of the common expenses incurred by the Association for the general benefit of all units. Base assessments are levied quarterly, but at the discretion of the Association's board of directors, may be payable more or less frequently. In addition, the Association is authorized under certain circumstances to levy (a) special assessments for unbudgeted expenses or expenses in excess of budget, and (b) specific assessments, which may be levied on units which receive special benefits or services not provided to all units, or which may be levied against a particular unit to reimburse the Association for costs incurred in bringing the unit into compliance with the provisions of the Declarations.

Base assessments are determined on the basis of a budget prepared annually and approved by the Association's Board of Directors covering the estimated costs of operating the Association during the coming year. In addition to regular assessments, the Association may levy special assessments, payable over such a period as the Association may determine, for the purpose of defraying, in whole or in part, the cost of any construction or reconstruction, repair or replacement of the Property or any part thereof, or for any other expense incurred or to be incurred as provided in the Declarations.

The obligation to pay assessments commences as to each unit on the first day of the first month following the date on which the assessment is made subject to the Declaration. The Association's policy is to charge late fees and interest to assessments paid in a delinquent manner. In addition, the Association has a formal policy to place liens on individual units that have assessments ninety days or greater past due, and retain legal counsel for the collection of these delinquent member assessments. All assessments are the personal obligation of the owner of the unit and also constitute a lien against the unit prior and superior to all other liens except the lien of a first mortgage and taxes. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Income. Operating and replacement funds have individual interest bearing deposit accounts and money market funds. Interest income associated with the accounts is reported in the respective funds.

Assessments Receivable. The Association had assessments receivable of $10,912 and other receivables of $5,803 at year-end, for total receivables of $16,715. Other receivables are comprised of late charges, interest charged to homeowners, and returned check charges. The total amount of receivables past due ninety days or more amounts to $14,822. Management reviews the collectability of its receivables and, when appropriate, records a reserve for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary basis for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. The Association has established an allowance for uncollectable receivables in the amount of $15,629.

In addition, the Association has $2,999 in special assessments receivable at year-end.

Income Taxes. Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. Due to certain tax rules related to the residency of Association members, the Association was taxed as a regular corporation for the year ended December 31, 2015. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, at regular federal and state corporate rates.

The Association is taxed on net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses, and any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. For the year ended December 31, 2015 the Association does not have net taxable income and there are no taxes due.

The Association evaluates uncertain tax positions in accordance with ASC 450 *Accounting for Contingencies* whereby the effect of the uncertainties in tax positions would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2015, the Association had no uncertain tax positions. The Associations open audit periods are 2013 through 2015.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, net. The Association capitalizes all property and equipment to which it has title or other evidence of ownership, and is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. Property and equipment acquired by the Association is recorded at cost if purchased and fair value if contributed. Property and equipment is depreciated over its estimated useful life using the straight-line method of depreciation. The estimated depreciable lives of the Association's property and equipment are as follows:

Condominium units	39 years
Condominium improvements	7 – 27.5 years
Clubhouse	25 years
Clubhouse furniture and equipment	10 years

Property and Equipment, Common Areas. The American Institute of Certified Public Accountants' guide on Common Interest Realty Associations required common area property and equipment to be capitalized if the Association has title to the assets and (1) the Association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the Association retaining the proceeds, or (2) the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. Management has determined that the Association does not meet the test for capitalizing property and equipment. According to the governing documents of the Association, the individual condominium unit owners each own an undivided appurtenant interest in and to the general common property.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Condominium units	$ 334,500
Condominium unit improvements	38,078
Clubhouse	200,000
Clubhouse furniture and equipment	10,000
	582,578
Accumulated depreciation	(355,751)
Net property and equipment	$ 226,827

Depreciation expense for the year ended December 31, 2015 was $11,444.

NOTE 4. INTANGIBLE ASSET

In 2005, the Association obtained the rights to the hotel operations name and zoning variance, thereby allowing the continuance of hotel operations for the compound unit owners. Because this intangible asset has an indefinite useful life, and its market value is deemed to be greater that their recorded book value, in accordance with ASC 350-30-35-1 it has not been amortized, and will be evaluated on an annual basis, or sooner if deemed necessary, for potential impairment.

NOTE 5. ASSESSMENTS RECEIVED IN ADVANCE

A total of $14,417 in member assessments and storage rentals were collected in the year ending December 31, 2015 for rents and assessments not due until 2016. These amounts are recorded as assessments received in advance in the liability section of the balance sheet until recognized in the proper periods during the upcoming year. In addition, gross receipts tax in the amount of $6,075 was collected on assessments that were subsequently transferred to the reserve fund. The amounts will be refunded to residents when received from the taxing authority.

NOTE 6. REFUNDABLE DEPOSITS

As of December 31, 2015, the Association had $2,440 in refundable storage deposits held in connection with storage unit rentals. An additional $950 refundable deposit is being held in connection with the Association’s rental unit. In addition, there is a $5,000 deposit related to the clubhouse that is being held by the Association. All funds are maintained in the general operating account of the association.

NOTE 7. NOTE PAYABLE

Notes payable consist of the following:

Note payable to bank, due in monthly installments of $1,959 including variable interest at 5.0% as of December 31, 2015; matures April 2032, secured by condominium units.	$ 250,072
Plus amounts due within one year	10,718
Total payable	$ 260,790

NOTE 7. NOTE PAYABLE (CONTINUED)

Future maturities of long-term notes payable are as follows:

2016	$ 10,718
2017	11,266
2018	11,842
2019	12,448
2020	13,085
Thereafter	201,431
Total	$ 260,790

NOTE 8. ECONOMIC DEPENDENCY

Approximately 83% and 16% of the Association's revenue for the year ended December 31, 2015 was derived from member assessments and rental income, respectively.

NOTE 9. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through June 28, 2016, which is the date the financial statements are available to be issued. The following material subsequent events occurred:

- In June 2016, the Association approved a special assessment in the amount of $310,000 for pool room repairs and renovations. The special assessment will be levied October 1, 2016.

NOTE 10. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements, nor do these documents require that replacement funds be held in a separate bank account from normal operating funds.

A reserve study was performed by an independent firm that estimates the remaining useful life and replacement costs of the common property components. The Board considers these future replacement needs in its budget planning. The Board then makes an annual allocation of assessments designated for future repairs and replacement expenditures. The total of this available fund balance was $459,397 at December 31, 2015.

Actual expenditures for future repairs and replacements and contingency reserves may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds and contingency reserve may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

FORT MARCY COMPOUND CONDOMINIUM ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (Compiled)
December 31, 2015

An independent firm conducted a reserve study in February 2014 to estimate the remaining useful life and replacements costs of the components of common property for Association. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study assuming an annual inflation rate of 2.5 percent.

The following information is based on the study and presents significant information about the components of common property.

	Estimated Remaining Useful Life	Estimated Future Replacement Cost
Appliances	5 – 35	$ 29,563
Asphalt and concrete	2 – 28	682,680
Balconies and decks	0 – 20	86,788
Doors	0 – 20	40,243
Electrical and plumbing	6 – 30	261,026
Electronics	15 – 25	109,099
Fencing and walls	0 – 25	59,719
Flooring	0 – 20	38,736
Furniture - interior	2 – 7	39,401
Gutters and roofing	2 – 20	2,718,959
HVAC	9 – 18	138,683
Irrigation	1 – 8	16,341
Lighting	1 – 30	91,475
Painting and repairs	0 – 10	578,027
Pool and spa	5 – 35	178,753
Renovation	0 – 25	226,983
Signage	0 – 10	11,797
Wall and window treatments	6 – 30	41,896
Total required reserve for repairs and replacements		$ 5,350,169