Fort Marcy Compound
Condominium Association, Inc.

Year Ended December 31, 2017

Financial Statements
With Supplementary Information

And

Independent Auditor's Report

MUMFORD GROUP
CERTIFIED PUBLIC ACCOUNTANTS

Fort Marcy Compound Condominium Association, Inc.

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MUMFORD GROUP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
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 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.

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 polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Marcy Compound Condominium Association, Inc. as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of repairs, replacements, and future acquisitions on page 12 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.

The Mumford Group

Bountiful, Utah
June 6, 2018

Fort Marcy Compound Condominium Association, Inc.

Balance Sheet

December 31, 2017

	Operating Fund	Reserve Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	$ 184,964	$ 566,549	$ 751,513
Accounts receivable, net of allowance for doubtful accounts of $9,305	68,146	134,518	202,664
Prepaid expenses	3,109	-	3,109
Due from operating fund	(108,021)	108,021	-
Total current assets	148,198	809,088	957,286
Property and equipment, net of accumulated depreciation of $392,713	189,865	-	189,865
Intangible assets	30,576	-	30,576
Total assets	$ 368,639	$ 809,088	$ 1,177,727
LIABILITIES AND FUND BALANCE			
Current liabilities			
Accounts payable	$ 16,328	$ 82,113	$ 98,441
Gross receipts tax payable	2,534	-	2,534
Assessments received in advance	5,767	-	5,767
Current portion of long-term debt	11,827	-	11,827
Total current liabilities	36,456	82,113	118,569
Refundable deposits	8,390	-	8,390
Long-term debt, net of current portion	227,284	-	227,284
Total liabilities	272,130	82,113	354,243
Fund balances	96,509	726,975	823,484
Total liabilities and fund balances	$ 368,639	$ 809,088	$ 1,177,727

See accompanying notes to financial statements.

Fort Marcy Compound Condominium Association, Inc.

Statement of Revenues, Expenses, and Changes in Fund Balances
Year Ended December 31, 2017

	Operating Fund	Reserve Fund	Total
REVENUES			
Regular assessments	$ 333,402	$ 196,313	$ 529,715
Special assessments	-	500,000	500,000
Interest charges	38	-	38
Late fees and fines	4,814	-	4,814
Rental income	109,599	-	109,599
Interest income	-	285	285
Total revenues	447,853	696,598	1,144,451
EXPENSES			
Alarm monitoring and lease	29,323	-	29,323
Association management fees	31,090	-	31,090
Bad debt expense	4,165	-	4,165
Depreciation	18,481	-	18,481
Director expense	15,000	-	15,000
Gifts and donations	1,000	-	1,000
Insurance	28,336	-	28,336
Interest expense	12,410	-	12,410
Legal and professional fees	22,623	-	22,623
Maintenance contracts	35,998	-	35,998
Meetings and communications	196	-	196
Miscellaneous	1,346	-	1,346
Office and administrative	1,029	-	1,029
Postage and copies	942	-	942
Replacements and major repairs	129,215	-	129,215
Reserve expense	-	502,766	502,766
Reserve study	-	4,520	4,520
Security services	11,897	-	11,897
Taxes - gross receipts, property, franchise	1,193	-	1,193
Utilities	127,642	-	127,642
Total expenses	471,886	507,286	979,172
Excess (deficiency) of revenues over expenses	(24,033)	189,312	165,279
Fund balances, beginning of year	120,542	537,663	658,205
Fund balances, end of year	$ 96,509	$ 726,975	$ 823,484

See accompanying notes to financial statements.

Fort Marcy Compound Condominium Association, Inc.

Statement of Cash Flows
Year Ended December 31, 2017

	Operating Fund	Reserve Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	$ (24,033)	$ 189,312	$ 165,279
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Depreciation	18,481	-	18,481
Changes in current assets and liabilities:			
Accounts receivable	(43,444)	(134,518)	(177,962)
Allowance for doubtful accounts	4,166	-	4,166
Prepaid expenses	(1,871)	-	(1,871)
Prepaid GRT	12,072	-	12,072
Accounts payable	(20,019)	62,304	42,285
GRT payable	2,131	-	2,131
Assessments received in advance	(10,153)	-	(10,153)
Due from operating fund	102,391	(102,391)	-
Net cash provided by operating activities	39,721	14,707	54,428
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(11,187)	-	(11,187)
Net cash used in financing activities	(11,187)	-	(11,187)
Net change in cash and cash equivalents	28,534	14,707	43,241
Cash and cash equivalents, beginning of year	156,430	551,842	708,272
Cash and cash equivalents, end of year	$ 184,964	$ 566,549	$ 751,513

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest	$ 12,410
Cash paid for income taxes	$ 55

See accompanying notes to financial statements.

1. BACKGROUND INFORMATION

Fort Marcy Compound Condominium, Inc. (the 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.

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 prepared 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.

Basis of Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. The financial statements are prepared on the accrual basis of accounting. Additionally, 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 the general operations of the Association.
>
> Reserve Fund—this fund is used to account for 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 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 may differ from those estimates.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

The Association maintains its cash and cash equivalents in bank deposits, 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, 2017, by $476,412. The Association has not experienced losses in such accounts and does not believe it is exposed to significant risk in these accounts.

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 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. 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.

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

Accounts receivable at the balance sheet date represent assessments, late charges, interest charged to homeowners, and returned check charges due from unit owners. 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 $9,305 at December 31, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, at regular federal and state corporate rates.

The Association is taxed on net income from non-membership activities reduced only by losses from on-membership activities for which a profit motive exists. Non-membership 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, 2017, the Association had approximately $31,154 in net taxable income with an estimated Federal payment of $4,900 and an estimated State payment of $1,600 being made in 2018 for the year ended December 31, 2017.

The Association’s tax filings for the years ending December 31, 2017, 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they are filed. Generally accepted accounting principles require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50% likely to be recognized upon ultimate settlement with the taxing authority is recorded. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Property and Equipment

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 Reality 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.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2017:

Condominium units	$ 334,500
Condominium unit improvements	38,078
Clubhouse	200,000
Clubhouse furniture and equipment	10,000
	582,578
Accumulated depreciation	(392,713)
Net property and equipment	$ 189,865

Depreciation expense for the year ended December 31, 2017 was $18,481.

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 than 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.

5. ASSESSMENTS RECEIVED IN ADVANCE

A total of $5,767 in member assessments and storage rentals were collected in the year ending December 31, 2017, for rents and assessments not due until 2018. 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.

6. REFUNDABLE DEPOSITS

As of December 31, 2017, 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.

7. NOTE PAYABLE

Notes payable consist of the following at December 31, 2017:

Note payable to bank, due in monthly installments of $1,959 including variable interest at 5.0% as of December 31, 2017; matures April 2032, secured by condominium units.	$ 239,111
	239,111
Less amounts due within one year	(11,827)
	$ 227,284

7. NOTE PAYABLE (continued)

Future maturities of long-term debt are as follows:

Year ended December 31,	
2018	$ 11,827
2019	12,432
2020	13,068
2021	13,737
2022	14,439
Thereafter	173,608
	$ 239,111

8. DATE OF MANAGEMENT'S REVIEW

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

9. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require funds to be accumulated for future 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 $566,549 at December 31, 2017.

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.

SUPPLEMENTARY INFORMATION

Fort Marcy Compound Condominium Association, Inc.
Information on Future Major Repairs and Replacements (Unaudited)
December 31, 2017

An independent firm conducted a reserve study in February 2014 to estimate the remaining useful life and replacement costs of the components of common property for the 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. An updated reserve study was commissioned in 2017 with the results expected in 2018.

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