



**VISTOSO COMMUNITY  
ASSOCIATION**

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FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2021  
AND FOR THE YEAR THEN ENDED



# VISTOSO COMMUNITY ASSOCIATION

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Vistoso Community Association

### Opinion

We have audited the accompanying financial statements of Vistoso Community Association (an Arizona Corporation), which comprise the balance sheet as of December 31, 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vistoso Community 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 Vistoso Community 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.

### 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 Vistoso Community 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 Responsibility 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 Vistoso Community 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 Vistoso Community 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 information on future major repairs and replacements of common property, on page 16, 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, 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.

*Butler Hansen, PLC*

Gilbert, Arizona  
November 27, 2023

**VISTOSO COMMUNITY ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b><u>ASSETS</u></b>			
Cash	\$ 1,251,292	\$ 2,074,727	\$ 3,326,019
Investments	-	1,074,681	1,074,681
Accounts Receivable, Net of Allowance of \$83,527	97,884	-	97,884
Accounts Receivable - Developer Owner (Builder)	26,916	-	26,916
Accrued Interest	-	6,172	6,172
Pre-Legal Receivable	30,755	-	30,755
Prepaid Expenses	556	-	556
Prepaid Insurance	7,394	-	7,394
Interfund Balance	89,670	(89,670)	-
	<u>\$ 1,504,467</u>	<u>\$ 3,065,910</u>	<u>\$ 4,570,377</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 34,742	\$ -	\$ 34,742
Contingent Payable	30,755	-	30,755
Accrued Expenses	58,619	-	58,619
Accrued Income Taxes	18,220	-	18,220
Prepaid Assessments	445,819	-	445,819
Prepaid Assessments - Developer Owner (Builder)	4,882	-	4,882
Refundable Deposit	6,225	-	6,225
Design Review Deposits	20,407	-	20,407
Security Deposits	30,117	-	30,117
	<u>649,786</u>	<u>-</u>	<u>649,786</u>
<b>FUND BALANCES</b>			
Operating Fund	854,681	-	854,681
Replacement Fund	-	3,065,910	3,065,910
	<u>854,681</u>	<u>3,065,910</u>	<u>3,920,591</u>
<b>TOTAL FUND BALANCES</b>	<u>854,681</u>	<u>3,065,910</u>	<u>3,920,591</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,504,467</u>	<u>\$ 3,065,910</u>	<u>\$ 4,570,377</u>

See accompanying notes to the financial statements.

**VISTOSO COMMUNITY ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Assessment Income	\$ 1,831,314	\$ -	\$ 1,831,314
Assessment Income - Parcel	43,920	-	43,920
Developer Owner (Builder) Assessment Income	106,317	-	106,317
Non-Residential (Commercial) Assessment Income	707,189	-	707,189
Interest Income	2,180	13,062	15,242
Interest Income - Parcel	-	148	148
Collection Cost Reimbursement	16,702	-	16,702
File Transfer Fees	1,425	-	1,425
Late Fee Income	27,215	-	27,215
NSF Fee	875	-	875
Monitor Trustee Sale	95	-	95
Violation Fines	25,516	-	25,516
File Review Fee	2,050	-	2,050
Newsletter Income	3,575	-	3,575
Rebill Fee	32,615	-	32,615
Dividends	-	3,878	3,878
Gain (Loss) on Investments	-	113,153	113,153
<b>TOTAL REVENUES</b>	<b>2,800,988</b>	<b>130,241</b>	<b>2,931,229</b>

**EXPENSES**

**ADMINISTRATIVE**

Management Fee	86,840	-	86,840
Office Lease	38,412	-	38,412
Reserve Study	885	-	885
Salaries and Benefits	244,420	-	244,420
Rebill Fee Expense	32,615	-	32,615
NSF Fee Expense	875	-	875
Legal Expense	67,504	-	67,504
CC&R Revisions Project	14,574	-	14,574
Lien/Collection Cost	25,427	-	25,427
File Review Fee	2,050	-	2,050
Monitor Trustee Sale	95	-	95
File Transfer Fee Expense	1,425	-	1,425
Audit/Tax Preparation	12,670	-	12,670
Electronic Payment Platform	31,145	-	31,145
Advertising	624	-	624
Billing Statements	30,520	-	30,520
Bank Charges	420	-	420

(CONTINUED)

See accompanying notes to the financial statements.

**VISTOSO COMMUNITY ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>ADMINISTRATIVE (CONTINUED)</b>			
Website	847	-	847
Newsletter	1,076	-	1,076
Office Equipment Rental	13,272	-	13,272
Office Expense	2,124	-	2,124
Printing	4,903	-	4,903
Meeting Expense	14,217	-	14,217
Postage	16,414	-	16,414
Mileage	2,863	-	2,863
Professional Fees	7,295	-	7,295
Property Taxes	157	-	157
Corporate Taxes and Fees	29,919	-	29,919
Bad Debt Expense	1,747	-	1,747
Insurance	29,574	-	29,574
Statutory Agent Fee	100	-	100
Miscellaneous Expense	1,455	-	1,455
TOTAL ADMINISTRATIVE	716,464	-	716,464
<b>UTILITIES</b>			
Water and Sewer	196,104	-	196,104
Electric	41,620	-	41,620
Gas	362	-	362
Sanitation	249	-	249
Phone	4,879	-	4,879
Internet	1,966	-	1,966
Alarm Monitoring	733	-	733
TOTAL UTILITIES	245,913	-	245,913
<b>PARCEL EXPENSES</b>			
Electric	524	-	524
Landscape Contract	7,852	-	7,852
Fountain Maintenance	1,920	-	1,920
Gate Maintenance Contract	2,580	-	2,580
Gate Repairs	2,844	-	2,844
Gate Phone	1,098	-	1,098
General Maintenance	375	-	375
Common Area Maintenance	870	-	870
TOTAL PARCEL EXPENSES	18,063	-	18,063

(CONTINUED)

See accompanying notes to the financial statements.

**VISTOSO COMMUNITY ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>TOTAL</b>
<b>LANDSCAPING</b>			
Landscape Contract	948,488	-	948,488
Grounds Labor	101,143	-	101,143
Landscape Supplies/Material	138	-	138
Major Projects	16,685	-	16,685
Irrigation Repairs	20,395	-	20,395
Backflow Inspection	248	-	248
Tree Trimming/Removal	26,705	-	26,705
Exterminating	25,924	-	25,924
Irrigation Repairs - Parcel	869	-	869
<b>TOTAL LANDSCAPING</b>	<b>1,140,595</b>	<b>-</b>	<b>1,140,595</b>
<b>COMMON AREA</b>			
Building Maintenance	2,288	-	2,288
Keys/Lock Repair	5,434	-	5,434
Electric Repair and Supplies	16,279	-	16,279
Sign Maintenance	965	-	965
Janitorial	11,755	-	11,755
Pet Waste Removal	20,130	-	20,130
Security Patrol	12,152	-	12,152
Common Area Maintenance/Repairs	6,690	-	6,690
Park Maintenance	7,505	-	7,505
Exterminating	3,778	-	3,778
Tennis Court Repair	7,600	-	7,600
<b>TOTAL COMMON AREA</b>	<b>94,576</b>	<b>-</b>	<b>94,576</b>
<b>RESERVE EXPENSES</b>			
Painting	-	89,983	89,983
Walls	-	27,600	27,600
Bank/Investment Charges	-	10,883	10,883
Granite Replacement	-	3,525	3,525
Park Furniture Replacement	-	64,880	64,880
Reserve Study	-	1,505	1,505
Play Structure Repairs/Replacement	-	7,860	7,860
Concrete Work	-	4,615	4,615
Irrigation Systems Controllers	-	7,775	7,775
General Reserve Expense - Parcel	-	20,299	20,299
<b>TOTAL RESERVE EXPENSES</b>	<b>-</b>	<b>238,925</b>	<b>238,925</b>
<b>TOTAL EXPENSES</b>	<b>2,215,611</b>	<b>238,925</b>	<b>2,454,536</b>

(CONTINUED)

See accompanying notes to the financial statements.



**VISTOSO COMMUNITY ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND BALANCES (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>EXCESS REVENUES (EXPENSES)</b>	585,377	(108,684)	476,693
<b>OTHER COMPREHENSIVE INCOME</b>			
Unrealized Gain (Loss) on Investments	-	(59,993)	(59,993)
Adjustment for Prior Year Unrealized Gain (Loss)	-	(68,407)	(68,407)
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<u>-</u>	<u>(128,400)</u>	<u>(128,400)</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	585,377	(237,084)	348,293
<b>FUND BALANCES</b>			
<b>BEGINNING OF YEAR</b>	736,404	2,835,894	3,572,298
<b>TRANSFERS BETWEEN FUNDS</b>			
Budgeted Master Transfers	(450,000)	450,000	-
Budgeted Parcel Transfers	(17,100)	17,100	-
<b>TOTAL TRANSFERS BETWEEN FUNDS</b>	<u>(467,100)</u>	<u>467,100</u>	<u>-</u>
<b>FUND BALANCES</b>			
<b>END OF YEAR</b>	<u>\$ 854,681</u>	<u>\$ 3,065,910</u>	<u>\$ 3,920,591</u>

See accompanying notes to the financial statements.

**VISTOSO COMMUNITY ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Excess Revenues (Expenses)	\$ 585,377	\$ (108,684)	\$ 476,693
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities			
Bad Debt Expense	1,747	-	1,747
(Gain) Loss on Investments	-	(113,153)	(113,153)
(Increase)/Decrease In			
Accounts Receivable	(12,522)	-	(12,522)
Accounts Receivable - Developer Owner (Builder)	(16,025)	-	(16,025)
Accrued Interest	-	(6,172)	(6,172)
Pre-Legal Receivable	18,289	-	18,289
Prepaid Expenses	80,361	-	80,361
Prepaid Insurance	(2)	-	(2)
Increase/(Decrease) In			
Accounts Payable	(16,854)	-	(16,854)
Contingent Payable	(18,289)	-	(18,289)
Accrued Expenses	(84,269)	(7,030)	(91,299)
Accrued Income Taxes	18,220	-	18,220
Prepaid Assessments	62,434	-	62,434
Prepaid Assessments - Developer Owner (Builder)	2,870	-	2,870
Insurance Claim Pending	(825)	-	(825)
Refundable Deposit	4,125	-	4,125
Security Deposits	(375)	-	(375)
Net Cash Provided (Used) by Operating Activities	<u>624,262</u>	<u>(235,039)</u>	<u>389,223</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Purchases of Investments	-	(1,262,247)	(1,262,247)
Maturities of Investments	-	1,213,382	1,213,382
Reinvested Interest and Dividends	-	16,940	16,940
Net Cash Provided (Used) by Investing Activities	<u>-</u>	<u>(31,925)</u>	<u>(31,925)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Transfers to Reserves - Master	(450,000)	450,000	-
Transfers to Reserves - Parcel	(17,100)	17,100	-
Change In Interfund Balance	(52,453)	52,453	-
Net Cash Provided (Used) by Financing Activities	<u>(519,553)</u>	<u>519,553</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>104,709</b>	<b>252,589</b>	<b>357,298</b>
<b>CASH BALANCE, BEGINNING OF YEAR</b>	<b><u>1,146,583</u></b>	<b><u>1,822,138</u></b>	<b><u>2,968,721</u></b>
<b>CASH BALANCE, END OF YEAR</b>	<b><u>\$ 1,251,292</u></b>	<b><u>\$ 2,074,727</u></b>	<b><u>\$ 3,326,019</u></b>
<b><u>SUPPLEMENTARY INFORMATION</u></b>			
Income Taxes Paid	\$ 23,578		
Interest Paid	\$ -		

See accompanying notes to the financial statements.

**VISTOSO COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 1 - NATURE OF THE ORGANIZATION**

Vistoso Community Association (the “Association”), a non-stock homeowners association, was incorporated on March 17, 1987, under the general non-profit laws of the State of Arizona. The Association was established to provide management, maintenance and preservation of the common areas and other property owned by the Association or property placed under its jurisdiction. The Association consists of 5,821 completed Residential lots, 63 Non-Residential units, and 572 Developer Owner (Builder) lots, and is located in Oro Valley, Arizona. There is a Board of Directors elected by the member homeowners. The Board of Directors engaged FirstService Residential as the managing agent for the Association.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Fund Accounting

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 Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes using the following funds established according to their nature and purpose:

Operating Fund

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

Replacement Fund

The Replacement Fund is used to account for the use and accumulation of funds for future major repairs and replacements.

Accounts Receivable

The annual budget and member assessments are approved by the Board of Directors. Association members are subject to quarterly assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and future replacements. Assessments receivable at December 31, 2021, represent fees due from homeowners. The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 30 days, at which time the Association pursues collection. 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. Accounts are written off when a homeowner enters bankruptcy or foreclosure. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Prepaid Assessments and Revenue Recognition

Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Association and are classified as Prepaid Assessments. Revenue from assessments, allocated to either the operating or reserve fund, is recognized as the performance obligation to maintain the community and to provide ongoing services is considered completed, generally on a monthly basis.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts. At December 31, 2021, all financial instruments are classified as Level I (inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets) within the fair value hierarchy.

**VISTOSO COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash and Cash Equivalents

For statement of cash flows purposes, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturity dates of three months, or less, as cash and cash equivalents. Certificates of deposit and financial instruments, with original maturities, at date of purchase, of more than three months, are classified as certificates of deposit.

Investments

The Association invests in equities and fixed income securities. The investments as of December 31, 2021, are classified as available for sale. The instruments are initially recorded at cost and subsequently presented on the financial statements at their fair value. In accordance with generally accepted accounting principles, any realized gain or loss in the fair market value of these types of securities, subsequent to their purchase, is recognized in the period in which they were realized. Unrealized gains or losses in the fair market value of these securities, subsequent to their purchase, are recognized as other comprehensive income.

Fair Value Measurements

FASB ASC 820, Fair Value Measurements and Disclosures defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. FASB ASC 820 establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions, prioritized as follows:

- Level 1 Inputs – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – observable market data, generally other than quoted prices.
- Level 3 Inputs – significant unobservable data.

Generally accepted accounting principles require that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Use of 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, 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. Accordingly, actual results could differ from those estimates. Estimates for the allowance for receivables are based on the Allowance Method.

Property and Equipment

In accordance with American Institute of Certified Public Accountants guidelines, the Association capitalizes all common real property to which it has title or other evidence of ownership and either:

- (1) can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash and it can retain the proceeds,
- or -
- (2) the property is used to generate significant cash flows from the members on the basis of usage.

The Association capitalizes all personal property it acquires. Purchased property and equipment is recorded at cost and depreciated utilizing various acceptable methods over the useful lives of the property and equipment.

**VISTOSO COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Common Property

Certain land areas were contributed by the developer, upon completion of the project, at no cost to the Association, which are not reflected in the financial statements. The contributed areas consist of streets, walls, gates, monuments, lighting, play equipment, park furniture, drinking fountains, fences, mailboxes, tennis courts, basketball court, landscape, and landscape rights-of-way, which can never be sold or subdivided. The Association has not placed a value on these assets.

Date of Management's Review

Subsequent events have been evaluated through November 27, 2023, which is the date the financial statements were available to be issued.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2021:

	<u>Total Due</u>	<u>Over 90 Days</u>
Residential Assessments	\$ 44,312	\$ 43,672
Non-Residential (Commercial) Assessments	57,974	57,974
Developer Owner (Builder) Assessments	26,916	26,916
Pre-Legal Receivable	30,755	24,574
Fines and Reimbursements	<u>79,125</u>	<u>59,315</u>
Total Gross Receivables	239,082	212,451
Less: Allowance for Doubtful Accounts	<u>(83,527)</u>	<u>(83,527)</u>
Total Net Receivables	<u>\$ 155,555</u>	<u>\$ 128,924</u>

For the year ended December 31, 2021, an allowance for doubtful homeowner accounts in the amount of \$83,527 was established using the Allowance Method. Bad debt expense for the year ended December 31, 2021, was \$1,747. The Association could incur losses, up to the full amount of the receivables.

**NOTE 4 - COMMITMENTS AND CONTINGENCIES**

The Association enters into various contracts for management, landscape, and other services. Generally, all contracts are for one-year terms and can be canceled by either party with 30-to-90-day notifications.

**NOTE 5 - INVESTMENTS**

The Association invests in U.S. Treasury Notes, Commercial Unsecured Notes with maturities and interest rates that range from 0.125% to 5.875%. At December 31, 2021, it held \$1,074,681 in available-for-sale securities consisting of \$658,509 in US Treasury Securities and \$416,172 in Commercial Unsecured Notes. For the investments held in the year ended December 31, 2021, the annual interest rates range from 0.625% to 2.750% for US Treasury obligations and 1.650% to 5.875% for Commercial Unsecured Notes. The available-for-sale debt security securities are reported at their fair market value.

**VISTOSO COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 5 - INVESTMENTS (CONTINUED)**

At December 31, 2021, the \$1,074,681 in debt security investments are measured at fair value on a recurring basis and are classified as Level I (inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets) within the fair value hierarchy.

The following table summarizes the unrealized positions for available-for-sale fixed-maturity debt securities, disaggregated by class of instrument.

	Amortized Cost Basis	Gross		Fair Value	Total Other-than- temporary in Accumulated Other Comprehensive Income
		Unrealized Gains	Gross Unrealized Losses		
US Treasury Securities	\$ 662,209	\$ 1,120	\$ (4,820)	\$ 658,509	\$ -
Commercial Unsecured Notes	418,315	490	(2,633)	416,172	-
Total Fixed Maturities	<u>\$ 1,080,524</u>	<u>\$ 1,610</u>	<u>\$ (7,453)</u>	<u>\$ 1,074,681</u>	<u>\$ -</u>

The following table summarizes the fair value and amortized cost bases of the available-for-sale securities by contractual maturity.

	Amortized Cost	
	Basis	Fair Value
Due within one year	\$ 53,644	\$ 53,483
Due after one year through five years	670,552	664,406
Due after five years through ten years	<u>356,328</u>	<u>356,792</u>
Total	<u>\$ 1,080,524</u>	<u>\$ 1,074,681</u>

For the year ended December 31, 2021, unrealized gross losses on the Association's investments in US Treasury Notes and Commercial Unsecured Notes were caused by interest rate increases. Because it is not more likely than not that the Association will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Association does not consider those investments to be other-than-temporary impaired at December 31, 2021.

The following table summarizes the proceeds and gross realized gains and losses from maturities and sales of the available-for-sale security:

Amortized Cost of Securities	\$ 1,100,229
Gross Realized Gains	113,153
Gross Realized Losses	-
Gross Proceeds from Maturities and Sales	<u>\$ 1,213,382</u>

**VISTOSO COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2021**

**NOTE 6 - CONCENTRATION OF CREDIT RISK**

The Association's primary source of revenue is member assessments, which are earned on assessable lots or parcels located within a small geographic area. Member assessments and related receivables are subject to significant concentration of credit risk, given that they are primarily from a small geographical area, which can be impacted by similar economic conditions. Member assessments may be secured by liens upon a member's property or legal judgements. The Association monitors the collectability of these receivables and pursues collection as needed. Should the Association's collection efforts be unsuccessful, the Association could incur losses up to the full amount due. Management routinely assesses the collectability of these receivables and provides for an allowance for doubtful accounts.

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. The Association also maintains investment accounts in a brokerage account, which are covered up to \$500,000, limited to \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). At various times, deposits with these financial institutions, designated as cash and cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC), or other types of insurance programs.

**NOTE 7 - MEMBER ASSESSMENTS**

Association members are subject to annual assessments, billed on a periodic basis, to provide funds for the Association's operating expenses and major repairs and replacements. During 2021, the combined annual assessment was \$320, payable in quarterly installments of \$80. Additionally, Siena Neighborhood has an annual assessment of \$720, payable in quarterly installments of \$180. Assessment revenue allocated to the operating and reserve funds is recognized as the related performance obligation is satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its annual assessments billed on a periodic basis is satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The maximum annual assessment is defined in the Association's governing documents.

At December 31, 2021, the Association had delinquent assessments of \$129,202. It is the opinion of the Board of Directors that the Association will ultimately prevail against the majority of the homeowners with delinquent assessments.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning of the year are \$105,911. The balances of assessments receivable at the end of the year are \$129,202.

Residential Assessments

For the year ended December 31, 2021, the Association had \$1,831,314 of Residential Assessment Income. During 2021, the combined annual residential assessment was \$320, payable in quarterly installments of \$80 per residential lot. Additionally, Siena Neighborhood had \$43,920 in benefitted parcel income for the year ended December 31, 2021, based on an annual assessment of \$720, payable in quarterly installments of \$180.

**VISTOSO COMMUNITY ASSOCIATION  
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**NOTE 7 - MEMBER ASSESSMENTS (CONTINUED)**

Non-Residential (Commercial) Assessments

The Non-Residential (Commercial) Assessment Income is reported at \$707,189 for the year ended December 31, 2021. See Note 11 Subsequent Events that discusses the Board of Directors' actions.

Developer Owner (Builder) Assessments

For the year ended December 31, 2021, the Association had \$106,317 of Developer Owner (Builder) Assessment Income. During 2021, lots owned by builders are assessed either at 25%, 40% or 100% of the combined annual assessment of \$320, payable in quarterly installments of \$80. The Developer Owner (Builder) of a Lot is assessed only 25% of the Annual Assessment of \$320 for the first 12 months of conveyance of the initial completed Dwelling to a Non-Developer Owner or an apartment has been issued a certificate of occupancy. After the initial 12-month 25% rate expires, the Builder Developer will then be assessed 40% of the Annual Assessment for 12 months, and then is assessed 100% after the 40% rate has been terminated.

**NOTE 8 - INCOME TAXES**

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2021. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal and state income tax purposes, the Association is taxed on all 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. The Association files federal Form 1120, which has a tax rate of 21% applied to net taxable income. The Association files Arizona Form 120, which has a state tax rate that is applied to net taxable income of 4.9%. The Association had a federal and state tax liability of \$22,684 and \$5,158, respectively, for the year ended December 31, 2021. Federal and state income taxes disbursed in the current year for the prior year were \$17,000 and \$4,100, respectively.

**NOTE 9 - UNCERTAIN TAX POSITIONS**

The Association accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Association recognizes tax positions only to the extent that Management believes it is "more likely than not" that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax position for the year ending December 31, 2021.

The Association believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association's financial condition, net income, or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2021.



**VISTOSO COMMUNITY ASSOCIATION  
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DECEMBER 31, 2021**

**NOTE 9 - UNCERTAIN TAX POSITIONS (CONTINUED)**

The Association is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Association believes it is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2020, or by Arizona state tax authorities for years before 2019.

**NOTE 10 - REPLACEMENT FUND**

The Association accumulates funds for future major repairs and replacements; at December 31, 2021, these funds were \$3,065,910 and are held in separate accounts and are generally not available for operating purposes.

In 2020 and 2021, the Association's Board of Directors engaged a firm to conduct studies to estimate the remaining useful lives and replacement costs of the common property components. The reserve studies were completed on December 21, 2021 for the Master and August 2, 2020 for Siena Neighborhood. The Association is funding future major repairs and replacements based on the studies' estimates of current replacement costs. Funding considerations include amounts previously designated for future major repairs and replacements. Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Association may increase regular assessments up to the maximum annual assessment, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available.

**NOTE 11 - SUBSEQUENT EVENT**

Subsequent to December 31, 2021, the Board of Directors engaged the services of an attorney to assist the Association in obtaining third-party documentation to ensure that non-residential (commercial) assessments are being collected in accordance with governing documents. The Association is in the process of notifying Commercial Property members of adjustments, if any, that will be implemented in January 2024.

**VISTOSO COMMUNITY  
ASSOCIATION**

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**SUPPLEMENTARY  
INFORMATION**



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**VISTOSO COMMUNITY ASSOCIATION  
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2021**

The Association's Board of Directors engaged a firm to conduct studies to estimate the replacement costs of certain common property components. The studies were completed on December 21, 2021 for the Master and August 2, 2020 for Siena Neighborhood. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the studies. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the studies and the date that the components will require

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

Component	Remaining Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance December 31, 2021
<b>MASTER</b>			
Common Area	0 to 18	\$ 2,263,490	\$ -
Neighborhood 2	0 to 10	81,890	-
Neighborhood 2 - Big Wash Park	0 to 12	105,240	-
Neighborhood 3	0 to 13	847,000	-
Neighborhood 5	0 to 17	187,410	-
Neighborhood 5 Park	3 to 24	171,060	-
Neighborhood 7	0 to 10	183,700	-
Neighborhood 7 - Wildlife Ridge Park	0 to 19	304,900	-
Neighborhood 10 - Phase 1	0 to 8	482,700	-
Neighborhood 10 - Phase 2	0 to 14	670,230	-
Neighborhood 10 - Phase 3	0 to 28	447,460	-
Neighborhood 10 - Hohokam Park	0 to 19	606,230	-
Neighborhood 10 - Sunset Park	0 to 16	194,920	-
Neighborhood 10 - Woodshade Trail	0 to 5	52,000	-
Neighborhood 11 - Vistoso Highlands	0 to 14	641,200	-
Siena Neighborhood	0 to 14	431,720	-
Unallocated		-	2,889,853
<b>TOTAL MASTER</b>		<u>7,671,150</u>	<u>2,889,853</u>
<b>SIENA NEIGHBORHOOD</b>			
Common Area	0 to 15	407,900	-
Unallocated		-	176,057
<b>TOTAL SIENA NEIGHBORHOOD</b>		<u>407,900</u>	<u>176,057</u>
<b>TOTAL</b>		<u>\$ 8,079,050</u>	<u>\$ 3,065,910</u>

See independent auditor's report.