



**CHATEAU DE VIE TWO TOWNHOUSES  
ASSOCIATION**

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FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2012  
AND FOR THE YEAR THEN ENDED



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# CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Chateau De Vie Two Townhouses Association

### Report on Financial Statements

We have audited the accompanying financial statements of Chateau De Vie Two Townhouses Association (an Arizona Corporation), which comprise the statement of assets, liabilities and members' equity – cash basis, as of December 31, 2012, and the related statement of revenues, expenses and changes in members' equity – cash basis 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 the cash basis of accounting as described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

### 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 includes 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and members' equity of Chateau De Vie Two Townhouses Association as of December 31, 2012, and its revenues and expenses and changes in members' equity for the year then ended, in accordance with the cash basis of accounting as described in Note 2.

**Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

**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 10, 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.



Mesa, Arizona  
July 5, 2013

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION**  
**STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY - CASH BASIS**  
**DECEMBER 31, 2012**

	<b>OPERATING FUND</b>	<b>REPLACEMENT FUND</b>	<b>INSURANCE FUND</b>	<b>TOTAL</b>
<b>ASSETS</b>				
Cash	\$ 48,924	\$ 52,469	\$ -	\$ 101,393
TOTAL ASSETS	\$ 48,924	\$ 52,469	\$ -	\$ 101,393
 <b>LIABILITIES AND MEMBERS' EQUITY</b>				
LIABILITIES	\$ -	\$ -	\$ -	\$ -
MEMBERS' EQUITY	48,924	52,469	-	101,393
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 48,924	\$ 52,469	\$ -	\$ 101,393

See accompanying notes to the financial statements.

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
MEMBERS' EQUITY - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>INSURANCE FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Association Fees	\$ 225,821	\$ -	\$ -	\$ 225,821
Fines	75	-	-	75
Key/Tag Charges	45	-	-	45
Clubhouse Deposit Fees	233	-	-	233
Late Fees	603	-	-	603
Deed/Trust Transfer	100	-	-	100
Lien Fees	300	-	-	300
NSF Fees	35	-	-	35
Interest Income	-	26	14	40
Insurance Claim Proceeds	-	-	186,687	186,687
TOTAL REVENUES	<u>227,212</u>	<u>26</u>	<u>186,701</u>	<u>413,939</u>
<b>EXPENSES</b>				
<b>UTILITIES</b>				
Water	47,094	-	-	47,094
Gas/Propane	397	-	-	397
Electric	4,276	-	-	4,276
Refuse	9,253	-	-	9,253
Sewer	18,953	-	-	18,953
TOTAL UTILITIES	<u>79,973</u>	<u>-</u>	<u>-</u>	<u>79,973</u>
<b>LANDSCAPING</b>				
Lawn Cutting	18,151	-	-	18,151
Tree Trimming/Removal	165	-	-	165
Shrubs/Trees/Flowers	2,437	-	-	2,437
Other Landscaping Supplies	694	-	-	694
Sprinkler Supplies	494	-	-	494
Sprinkler Repair/Labor	2,268	-	-	2,268
TOTAL LANDSCAPING	<u>24,209</u>	<u>-</u>	<u>-</u>	<u>24,209</u>
<b>POOL AND WATER FEATURES</b>				
Pool/Spa Service Contract	3,000	-	-	3,000
Pool Chemicals	1,580	-	-	1,580
Pool Repairs	182	-	-	182
Pool Area Maintenance	540	-	-	540
Pool Furniture Repairs	120	-	-	120
TOTAL POOL AND WATER FEATURES	<u>5,422</u>	<u>-</u>	<u>-</u>	<u>5,422</u>

(CONTINUED)

See accompanying notes to the financial statements.

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
MEMBERS' EQUITY - CASH BASIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>INSURANCE FUND</u>	<u>TOTAL</u>
<b>GENERAL MAINTENANCE</b>				
Paint Supplies	150	-	-	150
Tools/Hardware/Supplies	700	-	-	700
Mold Remediation	3,680	-	-	3,680
Electrical Repairs	3,094	-	-	3,094
Lightbulbs	273	-	-	273
Plumbing Repairs	1,082	-	-	1,082
Maintenance Man	14,907	-	-	14,907
Payroll Taxes/Insurance	2,828	-	-	2,828
Exterminating	1,375	-	-	1,375
Back Flow Testing	434	-	-	434
Sweeping	450	-	-	450
Keys/Lock Repair	97	-	-	97
Signs	470	-	-	470
<b>TOTAL GENERAL MAINTENANCE</b>	<u>29,540</u>	<u>-</u>	<u>-</u>	<u>29,540</u>
<b>AMENITIES AND RECREATION</b>				
HVAC	172	-	-	172
Clubhouse Repairs/Supplies	3,156	-	-	3,156
<b>TOTAL AMENITIES AND RECREATION</b>	<u>3,328</u>	<u>-</u>	<u>-</u>	<u>3,328</u>
<b>GENERAL AND ADMINISTRATIVE</b>				
Legal Fees	1,039	-	-	1,039
Management Fees	12,333	-	-	12,333
Audit/Review/Compilation Fee	4,262	-	-	4,262
Insurance	23,480	-	-	23,480
Taxes - Income	50	-	-	50
Taxes - Common Area	5	-	-	5
Permits and Licenses	280	-	-	280
Meeting Expenses	75	-	-	75
Recording Minutes	50	-	-	50
Printing and Postage	3,089	-	-	3,089
Legal - Collection Fees	232	-	-	232
Trust Transfer	100	-	-	100
Late/Lien/NSF Fees	1,441	-	-	1,441
Refund Credit on Account	454	-	-	454
<b>TOTAL GENERAL AND ADMINISTRATIVE</b>	<u>46,890</u>	<u>-</u>	<u>-</u>	<u>46,890</u>

(CONTINUED)

See accompanying notes to the financial statements.

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
MEMBERS' EQUITY - CASH BASIS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>INSURANCE FUND</u>	<u>TOTAL</u>
<b>REPLACEMENT AND INSURANCE FUND</b>				
Reserve Fund Expenses	-	3,270	-	3,270
Insurance Fund Expenses	-	-	345,275	345,275
<b>TOTAL REPLACEMENT AND INSURANCE FUND</b>	<u>-</u>	<u>3,270</u>	<u>345,275</u>	<u>348,545</u>
<b>TOTAL EXPENSES</b>	<u>189,362</u>	<u>3,270</u>	<u>345,275</u>	<u>537,907</u>
<b>EXCESS REVENUES (EXPENSES)</b>	37,850	(3,244)	(158,574)	(123,968)
<b>MEMBERS' EQUITY</b>				
<b>BEGINNING OF YEAR</b>	23,074	53,834	148,453	225,361
<b>TRANSFERS BETWEEN FUNDS</b>	<u>(12,000)</u>	<u>1,879</u>	<u>10,121</u>	<u>-</u>
<b>MEMBERS' EQUITY</b>				
<b>END OF YEAR</b>	<u>\$ 48,924</u>	<u>\$ 52,469</u>	<u>\$ -</u>	<u>\$ 101,393</u>

See accompanying notes to the financial statements.



**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 1 - ORGANIZATION**

Chateau De Vie Two Townhouses Association, a non-stock townhouse association, was incorporated on April 25, 1969, under the general non-profit laws of the State of Arizona. The Association was established to provide maintenance and preservation of the common areas associated with the community. The Association consists of 83 townhouses located in Scottsdale, Arizona. There is a board of directors elected by the member homeowners. The Board of Directors has engaged a professional management company as the managing agent for the Association.

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

Method of Accounting

The Association's general records and the accompanying financial statements are prepared using the cash method of accounting. Consequently, revenues (assessments and other income) are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. Accordingly, accounts receivable due from owners, deferred revenues and accrued expenses are not included in the financial statements.

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 accumulation of funds for future major repairs and replacements.

Insurance Fund

The Insurance Fund is used to account for the receipts and disbursements related to an insurance claim for roof damage from a severe storm.

Cash and Cash Equivalents

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.

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.

Date of Management's Review

Subsequent events have been evaluated through July 5, 2013, which is the date the financial statements were available to be issued.

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

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

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 it's 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 members on 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.

Income Taxes

The Association files its income tax return as a homeowners association, in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed on its investment income and other non-exempt function income. The Association had a federal and state income tax liability of \$0 and \$50, respectively, for the year ended December 31, 2012. Federal and state income taxes disbursed in the current year for the prior year were \$0 and \$50, respectively.

Common Property

Certain land areas have been contributed by the developer of the project at no cost to the Association. The Association has not recorded these assets, and accordingly no value has been established. The contributed areas consist of streets, roofs, pool, clubhouse, landscape, and landscape rights-of-way, which can never be sold or subdivided. The Association has not placed a value on these assets.

**NOTE 3 – MAINTENANCE ASSESSMENTS AND EXPENSES**

Association members are subject to annual assessments to provide funds for the Association's operating expenses and future major repairs and replacements. During 2012, the combined annual assessment was \$2,720.64, payable in monthly installments of \$226.72. There is no maximum annual assessment defined in the governing documents. Any excess assessments at year end are retained by the Association for use in future periods.

**NOTE 4 - CONCENTRATIONS**

The Association's annual assessment revenue is subject to a significant concentration of credit risk, given that the revenue is received primarily within a small geographic area.

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), or other types of insurance programs.

**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association accumulates funds for future major repairs and replacements; at December 31, 2012, these funds were \$52,469. These funds are held in separate accounts and are generally not available for operating purposes.

In 2006, the Association's board of directors engaged a firm to conduct a reserve study to estimate the remaining useful lives and replacement costs of the common property components. The reserve study was completed on April 9, 2006. The Association is funding major repairs and replacements based on the study's 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, borrow the funds necessary, subject to member approval, or may delay major repairs and replacements until funds are available.

**NOTE 6 – INSURANCE CLAIM FUND**

The Association and its homeowners suffered structural damages to their roofs and air conditioning units from a hail storm, which occurred in October 2010. During 2012, the Association held funds received from its insurance company in a separate bank account and the funds were used to pay for repairs. The balance of the restricted cash was \$0 at December 31, 2012. During 2012, Insurance claim proceeds totaled \$186,687, and the related expenses totaled \$345,275.

**CHATEAU DE VIE TWO TOWNHOUSES  
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SUPPLEMENTARY INFORMATION



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**CHATEAU DE VIE TWO TOWNHOUSES ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS - UNAUDITED  
DECEMBER 31, 2012**

The Association's board of directors engaged a firm to conduct a study to estimate the replacement costs of certain common property components. The study was completed on April 9, 2006. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. 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 study and the date that the components will require repair or replacement.

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

Component	Remaining Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance December 31, 2012
Common Area	0 to 28	\$ 1,007,240	\$ -
Recreation Area	1 to 14	96,450	-
Unallocated		-	52,469
 Total		 \$ 1,103,690	 \$ 52,469

See independent auditor's report.