

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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**Mansperger
Patterson
& McMullin, PLC**
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Directors of:

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.

Cottonwood, Arizona

Management is responsible for the accompanying financial statements of Mesquite Hills Homeowners Association, Inc., which comprise the statement of assets, liabilities, and fund balances - cash basis as of December 31, 2022, and the related statement of revenues, expenses, and changes in fund balances - cash basis for the year then ended, and the related notes to the financial statements in accordance with the cash basis of accounting, and for determining that the cash basis of accounting is an acceptable financial reporting framework. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Mansperger Patterson & McMullin, PLC

Tempe, Arizona
April 18, 2023

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF ASSETS, LIABILITES AND FUND BALANCES - CASH BASIS
DECEMBER 31, 2022

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 79,835	\$ 74,557	\$ 154,392
TOTAL ASSETS	<u>79,835</u>	<u>74,557</u>	<u>154,392</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES			
	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
	<u>79,835</u>	<u>74,557</u>	<u>154,392</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 79,835</u>	<u>\$ 74,557</u>	<u>\$ 154,392</u>

See Independent Accountants' Compilation Report.
The Accompanying Notes are an Integral Part
of These Financial Statements.

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Residential Assessments	\$ 37,064	\$ 41,260	\$ 78,324
Working Capital	810	-	810
Interest Income	45	127	172
Total Revenues	37,919	41,387	79,306
EXPENSES			
Administrative	16,920	-	16,920
Utilities	2,240	-	2,240
Repairs and Maintenance	30,398	-	30,398
Parts and Supplies	853	-	853
Total Expenses	50,411	-	50,411
EXCESS REVENUES (EXPENSES)	(12,492)	41,387	28,895
Fund Balances Beginning of Year	92,327	33,170	125,497
FUND BALANCES END OF YEAR	\$ 79,835	\$ 74,557	\$ 154,392

See Independent Accountants' Compilation Report.
The Accompanying Notes are an Integral Part
of These Financial Statements.

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

Nature of Operations

Mesquite Hills Homeowners Association, Inc. was incorporated on April 25, 2006, in the State of Arizona. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Cottonwood, Arizona and consists of 147 residential units. The Board of Directors has engaged Kinney Management Services as the managing agent for the Association.

Method of Accounting

The Association's general records and the financial statements are prepared using the cash basis 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 homeowners, 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 separate funds. 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 to the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

The Association considers all cash in bank accounts, money market accounts, cash on hand, and certificate of deposits, with original maturities of less than three months, to be cash equivalents. The Association maintains cash and cash equivalents at various financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2022, there were no deposits in excess of FDIC insurance limits. Management evaluates cash positions on a regular basis in order to mitigate the risk. Certificates of deposit and financial instruments, with original maturities, at date of purchase, of more than three months, are classified as investments.

Income Taxes

The association filed its income tax returns as a homeowners' association in accordance with Internal Revenue Service Code Section 528 for the current fiscal year. 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 at the rate of 30% on its nonexempt function income, which includes interest income.

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS,
(CONTINUED)

Income Taxes, (continued)

Arizona income tax is based on the federal taxable income at approximately 4.9% after adding any Form 1120-H \$100 exemption. There is a minimum tax of \$50. Federal income taxes disbursed in the current fiscal year include \$-0- for the prior fiscal year. Arizona income taxes disbursed in the current fiscal year include \$50 for the prior fiscal year.

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, 2022.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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 could differ from those estimates.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association’s financial statements because those properties:

- a. Are not used to generate significant cash flows on the basis of usage from members and nonmembers.
- b. Cannot be sold, at the discretion of its Board of Directors, for cash or claims to cash

Common Property

The Common Property of the Association consists of land and land improvements. Real property and common areas acquired from the developer are owned by the individual homeowners in common and not by the Association. Accordingly, the Common Property has not been reflected in the financial statement. In addition, as noted above, these financial statements are presented on the cash basis of accounting. Under the cash basis of accounting, fixed assets are not reflected in the financial statement.

Subsequent Event

Management has evaluated subsequent events through April 18, 2023, the date the financial statements were available to be issued.

MESQUITE HILLS HOMEOWNERS ASSOCIATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 – ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. 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. As noted above, these financial statements are presented on the cash basis of accounting. Accordingly, unpaid member assessments have not been reflected in the financial statements.

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has established a reserve fund to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate \$74,557 at December 31, 2022, are held in separate accounts and are generally not available for operating purposes.

The Association has not conducted a formal study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. Actual expenditures, however, may vary from the estimated funding amounts determined by the Board of Directors and the reserve study, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE 4 – RELATED PARTY TRANSACTIONS

As noted above, the Board of Directors has engaged Kinney Management Services as the managing agent for the Association. The Association has also engaged Kinney Management's collection division to provide collection services. Kinney's collection division operates under the name Sentinel Servicing and is licensed by the Arizona State Banking Department.

NOTE 5 – CONCENTRATIONS

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