



To the Board of Directors and Members  
Eagle Crest Master Association

### **Independent Accountants' Audit Report**

We have audited the accompanying financial statements of Eagle Crest Master Association, which comprise of the balance sheets as of December 31, 2018, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eagle Crest Master Association as of December 31, 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited Eagle Crest Master Association's December 31, 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated June 22, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on pages 13 and 14 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.

*Hendry & Company, PC*

Portland, Oregon  
May 10, 2019

# EAGLE CREST MASTER ASSOCIATION

## BALANCE SHEETS

December 31, 2018 (With Comparative Totals for 2017)

	Operating Fund	Replacement Fund	Totals	
			2018	2017
<b>ASSETS</b>				
Cash and cash equivalents	\$ 297,353	\$ 843,880	\$ 1,141,233	\$ 319,905
Certificates of deposit	-	-	-	707,353
Receivables - assessments, net of allowance for doubtful accounts of none	69,532	-	69,532	-
Related parties receivables	18,603	-	18,603	115
Other receivables	-	-	-	4,781
Prepaid expenses	53,802	-	53,802	50,184
Interfund transfers	(74,146)	74,146	-	-
Inventory	14,570	-	14,570	17,736
Current portion of Marketable Securities	-	87,540	87,540	107,866
	379,714	1,005,566	1,385,280	1,207,940
<b>Total Current Assets</b>				
<b>INVESTMENT IN MARKETABLE SECURITIES, less current portion</b>	-	559,947	559,947	682,592
	379,714	1,565,513	1,945,227	1,890,532
<b>Total Assets</b>	\$ 379,714	\$ 1,565,513	\$ 1,945,227	\$ 1,890,532
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 51,736	\$ -	\$ 51,736	\$ 119,719
Line of credit	-	-	-	45,243
Income taxes payable	-	4,028	4,028	2,015
Payables to related parties	-	-	-	16,886
	51,736	4,028	55,764	183,863
<b>Total Current Liabilities</b>				
Fund Balances	327,978	1,561,485	1,889,463	1,706,669
<b>Total Liabilities and Fund Balances</b>	\$ 379,714	\$ 1,565,513	\$ 1,945,227	\$ 1,890,532

The accompanying notes are an integral part of these statements

# EAGLE CREST MASTER ASSOCIATION

## STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2018 (with Comparative Totals for 2017)

	Operating Fund	Replacement Fund	Totals	
			2018	2017
<b>REVENUE</b>				
Member assessments	\$ 165,814	\$ 278,320	\$ 444,134	\$ 438,048
Water and sewer	395,143	-	395,143	387,435
Golf course rental	33,105	-	33,105	31,710
Sports Center user fees	716,645	-	716,645	704,486
Sports Center, other operating	258,022	-	258,022	203,508
Interest income	1,098	17,292	18,390	16,448
Miscellaneous	14,490	3,450	17,940	1,361
	1,584,317	299,062	1,883,379	1,782,996
<b>EXPENSES</b>				
Facilities:				
Repairs and maintenance	26,132	-	26,132	22,292
Pool and spa expenses	22,928	-	22,928	25,533
Utilities	6,994	-	6,994	3,656
Snow removal	2,481	-	2,481	2,213
Property taxes	4,095	-	4,095	3,461
Insurance	14,361	-	14,361	12,082
Consultants and travel	25,120	-	25,120	19,775
Postage, printing and licenses	4,301	-	4,301	3,960
Management fees	21,806	-	21,806	22,007
VROA sports center rent	600	-	600	600
Eagle Crest Acquisition Group, LLC charges for:				
Safety services	44,705	-	44,705	43,403
Resort management services	30,771	-	30,771	29,730
General administrative	22,362	-	22,362	21,576
Landscaping	133,882	-	133,882	128,239
Total facilities expenses	360,538	-	360,538	338,527
Water and Sewer System:				
Repairs and maintenance	41,488	132,550	174,038	146,639
Pumping costs	32,303	-	32,303	36,492
Property taxes	9,422	-	9,422	9,706
Insurance	2,099	-	2,099	1,685
Consultants	11,057	-	11,057	18,980
Management fees	22,104	-	22,104	23,160
Other operating	3,525	-	3,525	3,159
Utility system management fee	105,082	-	105,082	80,859
Eagle Crest Acquisition Group, LLC charges for:				
Safety services	21,696	-	21,696	21,075
General administrative	13,855	-	13,855	13,386
Total water and sewer expenses	262,631	132,550	395,181	355,141

The accompanying notes are an integral part of these statements

# EAGLE CREST MASTER ASSOCIATION

## STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2018 (with Comparative Totals for 2017)

(Continued)

Sports Center:				
Cost of sales	152,059	-	152,059	111,725
Management fees	52,569	-	52,569	51,411
Property taxes	19,213	-	19,213	19,861
Insurance	30,732	-	30,732	29,906
Linen cleaning	21,885	-	21,885	22,585
Supplies	24,939	-	24,939	18,294
VROA reserve contribution	130,004	-	130,004	130,000
Other operating	4,108	-	4,108	6,861
Utilities	69,417	-	69,417	80,989
Repairs and maintenance	65,331	-	65,331	71,357
Eagle Crest Acquisition Group, LLC charges for:				
Sports center payroll	218,093	-	218,093	219,503
Pool and spa payroll	27,455	-	27,455	26,527
Safety services	34,764	-	34,764	33,758
Resort management services	8,194	-	8,194	7,917
General administrative	55,707	-	55,707	53,823
Landscaping	13,842	-	13,842	13,252
Night audit	12,641	-	12,641	12,214
Total sports center expenses	<u>940,953</u>	<u>-</u>	<u>940,953</u>	<u>909,983</u>
	<u>1,564,122</u>	<u>132,550</u>	<u>1,696,672</u>	<u>1,603,651</u>
<b>EXCESS OF REVENUE</b>				
<b>OVER EXPENSES BEFORE TAXES</b>	20,195	166,512	186,707	179,345
Income tax expense	-	3,913	3,913	2,165
<b>EXCESS OF REVENUE</b>				
<b>OVER EXPENSES</b>	20,195	162,599	182,794	177,180
<b>BEGINNING FUND BALANCES</b>				
	<u>307,783</u>	<u>1,398,886</u>	<u>1,706,669</u>	<u>1,529,489</u>
<b>ENDING FUND BALANCES</b>				
	<u>\$ 327,978</u>	<u>\$ 1,561,485</u>	<u>\$ 1,889,463</u>	<u>\$ 1,706,669</u>

The accompanying notes are an integral part of these statements

# EAGLE CREST MASTER ASSOCIATION

## STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2017 (with Comparative Totals for 2016)

	Operating Fund	Replacement Fund	Totals	
			2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess of revenue over expenses	\$ 20,195	\$ 162,599	\$ 182,794	\$ 177,180
Adjustments to reconcile excess of revenue over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Related party receivables	(18,488)	-	(18,488)	1,195
Other receivables	4,781	-	4,781	(2,281)
Assessments receivable	(69,532)	-	(69,532)	7,508
Prepaid expenses	(3,618)	-	(3,618)	(1,227)
Inventory	3,166	-	3,166	(302)
Increase (decrease) in:				
Accounts payable	(21,668)	(46,315)	(67,983)	82,360
Income taxes payable	-	2,013	2,013	1,865
Payables to related parties	(16,886)	-	(16,886)	(12,453)
Net cash provided (used) by operating activities	(102,050)	118,297	16,247	253,845
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Certificates of deposits redeemed (purchased)	-	707,353	707,353	(707,353)
Purchase of principal marketable securities	-	-	-	(254,065)
Return of principal-marketable securities	-	142,971	142,971	132,922
Net cash provided (used) by investing activities	-	850,324	850,324	(828,496)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Line of credit payable	-	(45,243)	(45,243)	45,243
Interfund transfers	82,928	(82,928)	-	-
Net cash provided (used) by financing activities	82,928	(128,171)	(45,243)	45,243
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	(19,122)	840,450	821,328	(529,408)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 297,353	\$ 843,880	\$ 1,141,233	\$ 319,905
<b>SUMMARY OF CASH ACCOUNTS</b>				
Operating fund			\$ 297,353	\$ 316,475
Replacement fund			843,880	3,430
			\$ 1,141,233	\$ 319,905
<b>Supplemental Disclosure:</b>				
Cash paid for income taxes	\$ -	\$ 1,900	\$ 1,900	\$ 150

The accompanying notes are an integral part of these statements

# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### DESCRIPTION OF ORGANIZATION-

Eagle Crest Master Association was incorporated on June 24, 1985 in the state of Oregon as a non-profit homeowners' association. The Association is responsible for the operation and maintenance of property and facilities common to all owners at Eagle Crest. The Eagle Crest Resort is located by the Deschutes River near Redmond, Oregon with over 500 acres developed.

The development consists of over 500 living units which are composed of whole and fractional ownership units, residential homesites and some commercial properties. All owners belong to the Master Association and with the exception of only certain commercial properties and WorldMark units, all owners also belong to either the Eagle Crest Vacation Resort Owners Association, Fairway Vista Estates, Inc., River View Vista Estates, Inc., Eagle Crest Hotel Condominiums or the Eagle Crest Estates Homesite Association.

### DATE OF MANAGEMENT'S REVIEW-

In preparation of the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 10, 2019, the date that the financial statements were available to be issued. No items were noted.

### SUMMARY OF SIGNIFICANT 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 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.

#### Replacement fund

The replacement fund is composed of the portion of the annual assessments designated in the budget to fund major repairs and replacements. Disbursements from this fund generally may be made only for designated purposes.

#### Cash and cash equivalents

The Association considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

#### Investment in marketable securities

Marketable securities, which consist of mortgage-backed securities, are carried at amortized cost which approximates market at the balance sheet date. The cost is determined with premiums and discounts amortized over collections. No unrealized gains or losses were recorded during 2018 nor 2017.

# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### SUMMARY OF SIGNIFICANT POLICIES-(Continued)

#### Member assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, capital acquisitions, and major repairs and replacements. The Association may share in the loss of fees not collected by their member Associations. Any excess assessments at year end are to be retained by the Association to be applied against the subsequent year assessments.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates in determining financial position and results of operations during the reporting period. Actual results could differ from these estimates.

#### Interest earned

Interest earned in the funds is allocated by a decision of the Board of Directors. During 2018 and 2017, interest was allocated to the fund in which it was earned.

#### Income taxes

The Association is subject to federal and state taxation. As a regular corporation, membership income may be exempt from taxation if certain elections are made, and the Association is then taxed only on its net nonmembership income. Eagle Crest Master Association is not able to file as a Homeowner's Association due to having income from nonowners in excess of allowable limits.

#### Property, improvements and equipment

Common property consists of common area land and improvements that were contributed by the developer or acquired by the Association with member assessments.

In accordance with generally accepted accounting principles for common interest realty associations, such common property is not recognized as an asset since it is not anticipated that the common areas will generate significant revenues from members or nonmembers on the basis of usage. In addition the property cannot be sold, leased or transferred without the approval of a majority of the owners. At December 31, 2018 and 2017, property not capitalized consists of roads, wells, sewer system, parks, lakes, bike paths, pools, sidewalks, access roads, golf course and greenbelts. Property and equipment acquired by the Association, if required to capitalize, are recorded at cost.

#### Other comprehensive income

The Association has no components of other comprehensive income. Comprehensive income consists of net unrealized gains or losses from certain securities.



# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### ASSESSMENTS AND WATER AND SEWER FEES RECEIVABLE-

The Association has regular billings for its water and sewer system, sports center fees and member dues. The Association's policy is to pursue collection on all billings. At December 31, 2018, the Association had assessments receivable of \$69,531 (none in 2017). The Board of Directors has not established a reserve for 2018 or 2017 to cover all fees not received at a member Association level. The Association had no bad debt recovery for the years ended December 31, 2018 and 2017.

### INVENTORIES-

Inventories are valued at the lower of cost or market. The inventory on hand at December 31, 2018 and 2017 consists of gift shop and convenience store inventory.

### INVESTMENTS-

The Association purchases marketable securities to invest surplus cash. Investments with over a three-month maturity were:

	<u>2018</u>	<u>2017</u>
Held-to-maturity investments	<u>\$ 649,177</u>	<u>\$ 790,458</u>
Fair market value	<u>\$ 643,069</u>	<u>\$ 791,588</u>

The held-to-maturity investments are recorded at amortized cost. The investments have unamortized premiums of \$27,348 at December 31, 2018 (\$44,019 in 2017). The marketable securities are mortgage-backed securities that mature between now and 2047. Fair market value under amortized costs was \$6,108 at December 31, 2018 these costs will be amortized over future collections.

These investments are issued by the Government National Mortgage Association (Ginnie Mae), a U.S. government agency, or the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), U.S. government-sponsored enterprises. Ginnie Mae, backed by the full faith and credit of the U.S. government, guarantees that investors receive timely payments. Fannie Mae and Freddie Mac also provide certain guarantees and, while not backed by the full faith and credit of the U.S. government, have special authority to borrow from the U.S. Treasury. Some of the investments are held in an account not insured by the FDIC, however, the investments are insured by the SIPC, and were purchased before the requirement to invest in FDIC insured assets. Other of these securities are held in an FDIC insured institution. The Board of Directors has determined that, based on the rate of return and guarantees, that the investments have minimal risk.

The Association also invested in short-term investments in various certificates of deposit during 2017, with maturities ranging from three to six months, earning interest at 1.08% to 1.55%. At December 31, 2018, the Association had no certificates of deposit (\$707,353 in 2017).

# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### **FUTURE MAJOR REPAIRS AND REPLACEMENTS-**

The Association's governing documents require funds to be accumulated for major repairs and replacements. Accumulated funds are held in separate accounts and are not available for operating purposes.

During 2018, the Board updated, through an independent consultant, reserve studies to estimate the remaining useful lives and replacement costs of the components of common property. The Board conducted reserve studies covering the Association facilities, Utility system, Golf Course facilities and the Water System Infrastructure Repair Estimation Plan.

Funding requirements assume an annual inflation rate of 2.8% and rate of investment earnings of 1.5%. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

Funds are being accumulated in the replacement fund over the estimated useful lives of the components based on the study's estimates of current replacement expenditures and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$380,207 was estimated and included in the 2019 budget including \$130,000 in rent for the leased sports center reserve. Actual expenditures may vary from the estimated amounts and the amounts 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 to increase regular assessments, levy special assessments, subject to member approval, or delay major repairs and replacements until funds are available.

### **RELATED PARTY TRANSACTIONS-**

The Association has a management agreement with Eagle Crest Management, LLC a subsidiary of Eagle Crest Acquisition Group, LLC (the "Corporation") the developer who succeeded the former manager, Eagle Crest Management and affiliates in February 2018.

The Corporation is to provide all services and personnel necessary to administer the Association. Under the terms of the agreement, the Association is assessed a management fee equal to 6% of the Association's defined expenses excluding property taxes and manager's compensation. The Corporation charged the operating fund \$96,479 for management fees in 2018 (\$96,578 in 2017).

Certain expenses other than depreciation are incurred by Eagle Crest Acquisition Group, LLC and are charged to the Association based on estimated service provided to the Association. These expenses total \$637,967 (\$624,403 in 2017) were in line with the approved budget.

# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### RELATED PARTY TRANSACTIONS- (Continued)

Revenues for the water and sewer system are mainly derived from members of the Eagle Crest Vacation Resort Owners Association, Eagle Crest Estate Homesite Association, Fairway Vista Estates, Inc., River View Vista Estates, Inc., World Mark Units and Eagle Crest Hotel Condominiums.

The Association leases its golf course to Eagle Crest Acquisition Group, LLC, under a lease commencing June 11, 2014. The lease requires the tenant pay rent and all operating expenses. Under the terms of the lease which is for thirty years with two ten year extensions, the Association will receive \$33,105 in 2019 and in future years with an annual change based on the Consumer Price Index for the Western Region.

Effective September 18, 2015, Eagle Crest Vacation Resort Owners Association extended its sports center lease to the Master Association until December 31, 2020 with two additional five year renewal options. Rental expense is \$50 per month plus contributions to the replacement fund of \$130,000 in 2018 and 2017 as determined by the reserve study. The Association is required to pay all operating expenses during the lease term. The minimum lease payments for the next two years is \$600 plus the annual reserve contribution based on the study for each year.

In December 2018, the Association signed an Amended and Restated Joint Use Easement Agreement originally recorded in May 1999, which grants the Ridge Association and the Ridge owners a nonexclusive easement to use the Eagle Crest Sports Center (which is leased by the Association) while the agreement is in force. Eagle Crest Acquisition Group, LLC, has also granted Eagle Crest Master Association for the benefit of its members a nonexclusive easement to use the Ridge Sports Center and Lakeside Sports Center during the term of this agreement which extends through December 31, 2021. Eagle Crest Acquisition Group, LLC charged the Association, during 2018, \$97.52 for each lot or unit and \$5.14 for each ownership interest for use of the Ridge and Lakeside Sports Center. The Ridge at Eagle Crest Owners Association paid the Association during 2017, \$131.26 for each lot or unit and \$10.34 for each ownership interest.

At December 31, 2018 the Association had \$88,135 of related party receivables and no related party payables (\$115 and \$13,074, respectively in 2017).

### INCOME TAXES-

The Association has taxable income of \$52,941 in 2018 which has been partially offset by the net operating loss carryover of \$14,631 from 2017. As of December 31, 2018, the Association has no remaining federal or Oregon operating loss carryovers. The Association also used a business tax credits of \$5,000, which was earned in 2000 for ADA credits.

# EAGLE CREST MASTER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### INCOME TAXES-(Continued)

Income taxes for the years ended December 31, consisted of the following:

	<u>2018</u>	<u>2017</u>
Current: Federal	\$2,930	\$2,015
State	<u>983</u>	<u>150</u>
	<u>\$3,913</u>	<u>\$2,165</u>

The tax expense has been allocated to the fund's share of net nonmembership income. In 2018 and 2017, the Association has elected to be taxed as a regular corporation. The Association has no deferred tax assets or liabilities. The returns have not been examined by taxing authorities and all returns from December 31, 2016 to present are subject to examination.

### NOTE PAYABLE-

The Association has obtained a line of credit which is secured by investments. There were no borrowings against this line at December 31, 2018 (\$45,243 in 2017). Approximately \$34,310 was available to borrow at December 31, 2018 (\$575,000 in 2017).

### CONCENTRATION OF CREDIT RISK-

Marketable securities consist entirely of mortgage-backed securities in pooled accounts which are government insured. The Association had two demand accounts on hand in financial institutions which exceed depositor's insurance provided by the applicable guarantee agency, which is \$250,000 for all accounts per institution. The Association believes its credit risk is minimal and the marketable securities not in an FDIC insured account were purchase prior to the current law requiring all investments to be in FDIC institutions.

World Mark, The Club, a membership organization, owns 83 units and in 2018 accounted for 15% of the Association revenue and paid fees of \$286,318 (\$264,561 in 2017).

The Association contracts for water and services from Oregon Water Utilities and accounted for 7% of expenses in 2018 (6% in 2017).

## EAGLE CREST MASTER ASSOCIATION

### Supplementary Information on Future Major Repairs and Replacements (Unaudited)

December 31, 2018

The Board of Directors, in 2018, through an independent consultant, updated studies to estimate the remaining useful lives and replacement costs of the components of common property. The Board also, through an independent consultant, conducted a study of the water system infrastructure. The estimates were obtained from licensed contractors and suppliers who were familiar with the property. Replacement costs were based on estimated costs to repair or replace the common components at the date of the study. The study includes items with remaining useful lives between one and thirty years.

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

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Estimated Expenditures 2019
<u>Components</u>			
Facilities Excluding Utilities:			
Septic	0 to 10	34,281	1,482
Streets and paths	0 to 12	606,130	64,280
HVAC and plumbing	0 to 21	14,426	-
Fences/gates	0 to 20	132,504	44,851
Painting	0 to 1	8,373	3,141
Signs	0 to 6	59,811	37,412
Pool and spa	0 to 18	93,583	41,941
Siding	0 to 26	23,619	9,748
Roofing	0 to 22	8,129	3,946
Miscellaneous	6 to 18	<u>21,630</u>	<u>1,345</u>
		<u>1,002,486</u>	<u>208,146</u>
Water & Sewer Utilities:			
Water pumps and wells	0 to 28	397,889	43,650
Sewer systems	0 to 16	266,366	160,468
Permits	2	167,072	-
Painting and fences	4 to 23	19,304	-
General utilities	0 to 14	55,255	-
Roofing and siding	4 to 18	<u>13,735</u>	<u>-</u>
		<u>919,621</u>	<u>204,118</u>

See independent auditors' report.

## EAGLE CREST MASTER ASSOCIATION

### Supplementary Information on Future Major Repairs and Replacements (Unaudited)(Continued)

December 31, 2018

	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Estimated Expenditures 2019</u>
Golf Course:			
Irrigation	0 to 22	1,166,787	28,341
Paving	0 to 32	281,371	54,061
Siding	3 to 14	198,103	-
Septic	0 to 7	35,994	14,959
Other	0 to 28	<u>316,956</u>	<u>141,968</u>
		<u>1,999,211</u>	<u>239,329</u>
Water System Infrastructure:			
Water mains, valves, hydrants	0 to 18	<u>171,648</u>	<u>12,066</u>
		<u>\$ 4,092,966</u>	<u>\$ 663,659</u>

The Association has not allocated the reserve balance to specific components. At December 31, 2018, the Association had a total of \$1,561,485 available in the replacement fund. \$581,985 was allocated to Master Association expenses, \$750,500 was allocated to utilities, \$119,000 was allocated to the golf course and \$110,000 to the water system infrastructure. At the funding levels and applying the financial assumptions presented in the 2018 reserve studies, the reserves would remain adequate through 2048 except for the Golf Course.

See independent auditors' report.



May 10, 2019

To the Board of Directors  
Eagle Crest Master Association

We have audited the financial statements of Eagle Crest Master Association for the year ended December 31, 2018, and have issued our report thereon dated May 10, 2019. Professional standards require that we provide you with the following information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Eagle Crest Master Association are described in the notes to the financial statements. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly for those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of costs of the Golf Course that have not been reserved for.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of Future Major Repairs and Replacements in the notes to the financial statements. This disclosure relates to estimated inflation and earnings and the useful lives of property, all of which could have significant changes.

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### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 10, 2019.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accounts.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



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Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Eagle Crest Master Association and is not intended to be and should not be used by anyone other than these specified parties.

Very truly,

Hudspeth & Company, PC



Kandi R. Hudspeth, CPA

KRH:cc