

**Financial Statements**

**Island Park Village Association, Inc.**

**For the Year Ended  
September 30, 2015**

Draft

# Island Park Village Association, Inc.

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**September 30, 2015**

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Draft

## **Independent Auditor's Report**

Board of Directors  
Island Park Village Association, Inc.  
Island Park, Idaho

We have audited the accompanying financial statements of Island Park Village Association, Inc., which comprise the balance sheet as of September 30, 2015, and the related statements of income, expenses, changes in fund balances, cash flows and other operating income and expenses 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 Island Park Village Association, Inc. as of September 30, 2015, 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.

Board of Directors  
Island Park Village Association, Inc.  
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***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on Page 12, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Redlands, California  
December 29, 2015

Draft

# Island Park Village Association, Inc.

## Balance Sheet September 30, 2015

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|   | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Capital<br/>Fund</u> | <u>Water<br/>Utility Fund</u> | <u>Total</u>      |
|---|---------------------------|-----------------------------|-------------------------|-------------------------------|-------------------|
| <b>Assets</b>                             |                           |                             |                         |                               |                   |
| Cash, including interest-bearing deposits | \$ 42,275                 | \$ 313,004                  | \$ -                    | \$ 161,041                    | \$ 516,320        |
| Cash in bank - restricted                 | -                         | 9,440                       | -                       | -                             | 9,440             |
| Accounts receivable, net                  | 247                       | -                           | -                       | -                             | 247               |
| Prepaid expenses                          | 2,410                     | -                           | -                       | -                             | 2,410             |
| Note receivable                           | -                         | -                           | 150,000                 | -                             | 150,000           |
| Property and equipment, net               | -                         | -                           | 303,000                 | 12,467                        | 315,467           |
| Interfund balances                        | (2,459)                   | (86,072)                    | -                       | 88,531                        | -                 |
| Total assets                              | <u>\$ 42,473</u>          | <u>\$ 236,372</u>           | <u>\$ 453,000</u>       | <u>\$ 262,039</u>             | <u>\$ 993,884</u> |
| <b>Liabilities and Fund Balances</b>      |                           |                             |                         |                               |                   |
| Accounts payable                          | \$ 13,813                 | \$ -                        | \$ -                    | \$ 4,035                      | \$ 17,848         |
| Accrued expenses                          | 14,937                    | -                           | -                       | -                             | 14,937            |
| Income taxes payable                      | 2,721                     | -                           | -                       | -                             | 2,721             |
| Total liabilities                         | 31,471                    | -                           | -                       | 4,035                         | 35,506            |
| Fund balance                              | <u>11,002</u>             | <u>236,372</u>              | <u>453,000</u>          | <u>258,004</u>                | <u>958,378</u>    |
| Total liabilities and fund balances       | <u>\$ 42,473</u>          | <u>\$ 236,372</u>           | <u>\$ 453,000</u>       | <u>\$ 262,039</u>             | <u>\$ 993,884</u> |

The accompanying notes are an integral part of these financial statements.

# Island Park Village Association, Inc.

## Statement of Revenue, Expenses, and Changes in Fund Balances For the Year Ended September 30, 2015

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|  | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Capital<br/>Fund</u> | <u>Water<br/>Utility Fund</u> | <u>Total</u>      |
|--|---------------------------|-----------------------------|-------------------------|-------------------------------|-------------------|
| <b>Revenue</b>   |                           |                             |                         |                               |                   |
| Member assessments,<br>net of discounts                              | \$ 79,517                 | \$ 25,400                   | \$ -                    | \$ -                          | \$ 104,917        |
| Land improvement assessment  | -                         | -                           | -                       | -                             | -                 |
| Water assessments  | -                         | -                           | -                       | 29,132                        | 29,132            |
| Golf course and clubhouse  | 143,996                   | -                           | -                       | -                             | 143,996           |
| Golf surcharge income  | -                         | 9,440                       | -                       | -                             | 9,440             |
| Rental income  | 3,315                     | -                           | -                       | -                             | 3,315             |
| Interest income  | 9                         | 1,939                       | -                       | 1,396                         | 3,344             |
| Gain (loss) on sale of<br>property and equipment                     | 35,030                    | -                           | (6,689)                 | -                             | 28,341            |
| Other income (schedule)  | 13,523                    | -                           | -                       | -                             | 13,523            |
| Total revenue  | <u>275,390</u>            | <u>36,779</u>               | <u>(6,689)</u>          | <u>30,528</u>                 | <u>336,008</u>    |
| <b>Expenses</b>  |                           |                             |                         |                               |                   |
| Golf course and clubhouse  | 137,984                   | -                           | -                       | -                             | 137,984           |
| Activities supplies  | -                         | -                           | -                       | -                             | -                 |
| Facilities   |                           |                             |                         |                               |                   |
| Maintenance (schedule)   | 20,109                    | -                           | -                       | -                             | 20,109            |
| General and administrative   |                           |                             |                         |                               |                   |
| Services (schedule)  | 110,738                   | -                           | -                       | -                             | 110,738           |
| Income taxes   | 3,771                     | -                           | -                       | -                             | 3,771             |
| Interest expense   | -                         | -                           | -                       | -                             | -                 |
| Bad debt expense   | 239                       | -                           | -                       | 250                           | 489               |
| Water system expenses  | -                         | -                           | -                       | 25,007                        | 25,007            |
| Utility expense (net of rebate)                                      | (5,504)                   | -                           | -                       | -                             | (5,504)           |
| Depreciation expense   | -                         | -                           | 12,086                  | 932                           | 13,018            |
| Repairs and replacements   | -                         | 39,940                      | -                       | 11,500                        | 51,440            |
| Total expenses   | <u>267,337</u>            | <u>39,940</u>               | <u>12,086</u>           | <u>37,689</u>                 | <u>357,052</u>    |
| Excess revenue (expenses)  | 8,053                     | (3,161)                     | (18,775)                | (7,161)                       | (21,044)          |
| Fund balances, beginning   | 17,519                    | 338,477                     | 358,261                 | 265,165                       | 979,422           |
| Prior period adjustment, understatement<br>of property and equipment | -                         | -                           | -                       | -                             | -                 |
| Fund balances, beginning as restated                                 | <u>17,519</u>             | <u>338,477</u>              | <u>358,261</u>          | <u>265,165</u>                | <u>979,422</u>    |
| Fund transfers   | (14,570)                  | (98,944)                    | 113,514                 | -                             | -                 |
| Fund balances, ending  | <u>\$ 11,002</u>          | <u>\$ 236,372</u>           | <u>\$ 453,000</u>       | <u>\$ 258,004</u>             | <u>\$ 958,378</u> |

The accompanying notes are an integral part of these financial statements.

# Island Park Village Association, Inc.

## Statement of Cash Flows For the Year Ended September 30, 2015

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|  | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Capital<br/>Fund</u> | <u>Water<br/>Utility Fund</u> | <u>Total</u>      |
|--|---------------------------|-----------------------------|-------------------------|-------------------------------|-------------------|
| <b>Cash Flows From Operating Activities</b>  |                           |                             |                         |                               |                   |
| Excess revenue (expenses)  | \$ 8,053                  | \$ (3,161)                  | \$ (18,775)             | \$ (7,161)                    | \$ (21,044)       |
| Adjustments to reconcile excess<br>of revenues over expenses to net<br>cash provided by operating<br>activities: |                           |                             |                         |                               |                   |
| Depreciation   | -                         | -                           | 12,086                  | 932                           | 13,018            |
| Gain (loss) on sale of<br>property and equipment   | -                         | -                           | 6,689                   | -                             | 6,689             |
| Changes in:  |                           |                             |                         |                               |                   |
| Accounts receivable  | 4,596                     | -                           | -                       | -                             | 4,596             |
| Prepaid expenses   | 14,761                    | -                           | -                       | -                             | 14,761            |
| Accounts payable   | (15,001)                  | -                           | -                       | (15,331)                      | (30,332)          |
| Accrued expenses   | (1,729)                   | -                           | -                       | -                             | (1,729)           |
| Income taxes payable   | 2,721                     | -                           | -                       | -                             | 2,721             |
| Prepaid assessments  | -                         | -                           | -                       | -                             | -                 |
| Net cash provided (used)<br>by operating activities  | <u>13,401</u>             | <u>(3,161)</u>              | <u>-</u>                | <u>(21,560)</u>               | <u>(11,320)</u>   |
| <b>Cash Flows From Investing Activities</b>  |                           |                             |                         |                               |                   |
| Purchase of property<br>and equipment  | -                         | -                           | (263,514)               | -                             | (263,514)         |
| Net cash provided (used)<br>by investing activities  | <u>-</u>                  | <u>-</u>                    | <u>(263,514)</u>        | <u>-</u>                      | <u>(263,514)</u>  |
| <b>Cash Flows From Financing Activities</b>  |                           |                             |                         |                               |                   |
| Principal payments on note payable   | -                         | (185,033)                   | -                       | -                             | (185,033)         |
| Interfund balances   | (22,991)                  | (63,928)                    | 150,000                 | (63,081)                      | -                 |
| Fund transfers   | (14,570)                  | (98,944)                    | 113,514                 | -                             | -                 |
| Net cash provided (used)<br>by financing activities  | <u>(37,561)</u>           | <u>(347,905)</u>            | <u>263,514</u>          | <u>(63,081)</u>               | <u>(185,033)</u>  |
| Net increase<br>(decrease) in cash   | (24,160)                  | (351,066)                   | -                       | (84,641)                      | (459,867)         |
| Cash, beginning of year  | <u>66,435</u>             | <u>673,510</u>              | <u>-</u>                | <u>245,682</u>                | <u>985,627</u>    |
| Cash, end of year  | <u>\$ 42,275</u>          | <u>\$ 322,444</u>           | <u>\$ -</u>             | <u>\$ 161,041</u>             | <u>\$ 525,760</u> |

The accompanying notes are an integral part of these financial statements.

# Island Park Village Association, Inc.

## Statement of Other Operating Income and Expenses For the Year Ended September 30, 2015

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|   | <u><b>Total</b></u> |
|---|---------------------|
| <b>Other Income</b>                             |                     |
| Late fees                                       | 1,060               |
| Snow removal                                    | 6,026               |
| Other   | <u>6,437</u>        |
| Total other income                              | <u>\$ 13,523</u>    |
| <b>Maintenance</b>                              |                     |
| Exterior maintenance salaries and related       | \$ 1,914            |
| Outside services                                | 3,659               |
| Snow removal                                    | <u>14,536</u>       |
| Total maintenance                               | <u>\$ 20,109</u>    |
| <b>General and Administrative Services</b>      |                     |
| Audit and tax fees                              | \$ 5,000            |
| Board meetings and board travel                 | 789                 |
| Insurance                                       | 5,808               |
| Legal and collection fees                       | 28,826              |
| Management and accounting fees                  | 30,391              |
| Property taxes                                  | 12,010              |
| Telephone and television                        | 3,821               |
| General and administrative salaries and related | 14,195              |
| Bank and merchant fees                          | 4,666               |
| Outside services                                | -                   |
| Printing and stationary                         | 1,949               |
| Postage and delivery                            | 93                  |
| Supplies  | 136                 |
| Other general and administrative                | <u>3,054</u>        |
| Total general and administrative services       | <u>\$ 110,738</u>   |

*The accompanying notes are an integral part of these financial statements*

# Island Park Village Association, Inc.

## Notes to Financial Statements September 30, 2015

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### **1. Organization and Other Matters**

Island Park Village Association, Inc. (the Association) is a nonprofit mutual benefit corporation, governed by a member-elected Board of Directors and organized in Idaho in July 1995. The Association is responsible for the operation and maintenance of the common property and amenities of the Island Park Village Resort. The resort consists of residential lots, a clubhouse, a nine-hole golf course and tennis courts.

### **2. Significant Accounting Policies**

#### *Use of 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. These estimates and assumptions affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### *Fund Accounting*

The Association's governing documents provide guidelines for managing its financial activities. To ensure compliance with limitations and restrictions on the use of financial resources, the Association maintains its records using fund accounting. They classify transactions for accounting and reporting purposes in funds established according to their nature and purpose.

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

Replacement Fund - This fund is used to account for financial resources designated for future major repairs and replacements.

Capital Fund - This fund is used to account for capital assets purchased by the Association and the related depreciation expense over the life of the asset.

Water Utility Fund - This fund is used to account for operation and maintenance of the Association owned water utility

#### *Cash and Cash Equivalents*

For financial statement purposes, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

# Island Park Village Association, Inc.

## Notes to Financial Statements September 30, 2015

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### 2. *Significant Accounting Policies* (concluded)

#### *Member Assessments*

Members are subject to annual assessments to provide funds for operating expenses and future major repairs and replacements. The annual budget and assessments of Association members are determined by the board of directors and are approved by the Association members. Assessments receivable at the reporting dates represent amounts due from Association members. The Association establishes an allowance for all unpaid accounts with delinquent balances outstanding for more than 90 days.

The Association's policy is to accrue interest on all amounts due, including delinquent assessments, reasonable collection costs and late charges commencing 30 days after assessments become due. Interest and related charges are recorded as income when billed to the Association member. In addition, the Association's policies permit various collection remedies for delinquent assessments, which include filing liens, foreclosing on the Association member, and obtaining judgment on other assets of the Association member. Any excess assessments at year-end are retained by the Association for use in the succeeding year. See Note 5 for additional information on assessments receivable.

#### *Major Repairs and Replacements*

Members pay a portion of their Association dues for reserve expenses, generally major repairs and replacements. The Association deposits these funds in separate interest-bearing bank accounts. See Note 9 for a further discussion of reserves.

#### *Property and Equipment*

The Association conforms to industry practice in recognizing real property and common areas as assets. Based on this practice, the Association only capitalizes property to which it has title and to which the board of directors has discretion to dispose of the property and retain the proceeds for the Association's use. Other real property and common areas are owned by the members in common and not by the Association and therefore are not capitalized. Depreciation is calculated using the straight-line method over the 5-31 year estimated useful life of the asset. For a further discussion of property and equipment, see Note 7.

#### *Prepaid Assessments*

Prepaid assessments consist of members' annual assessments received in advance. The Association recognizes these amounts as income when they are earned in the subsequent year.

# Island Park Village Association, Inc.

## Notes to Financial Statements September 30, 2015

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### 3. Income Taxes

Homeowners associations may elect to be taxed either as a timeshare association or as a regular corporation. For the year ended September 30, 2015, the Association elected to be taxed as a regular corporation in accordance with Internal Revenue Code Section 277. Under that election, the Association is subject to federal and state income tax only on income derived from non-member sources such as interest and rental income and is taxed at graduated corporate tax rates. Membership income is exempt from taxation if a vote of the general membership makes certain elections annually.

The Association's state and federal income tax filings are subject to audit by various taxing authorities. While the Association currently has no income tax returns under audit, the open tax audit periods, for which the statute of limitations has not expired, are September 30, 2012 through September 30, 2015. For the year ended September 30, 2015, the Association paid \$-0- income tax interest and penalties.

### 4. Restricted Cash

Restricted cash consists of \$1 collected for each round of golf played. The restricted golf funds can only be used for operational improvements and equipment for the golf course. Restricted cash at the reporting date is as follows:

|  |                |
|--|----------------|
| Beginning balance at October 1, 2014                     | \$-0-          |
| Golf course funds collected                              | 9,440          |
| Improvements and equipment purchased for the golf course | (-0-)          |
| Total restricted cash                                    | <u>\$9,440</u> |

### 5. Accounts Receivable

Accounts receivable at the reporting date consists of the following amounts:

|                                 |              |
|---------------------------------|--------------|
| Member assessments              | \$2,223      |
| Other receivables               | -0-          |
| Allowance for doubtful accounts | (1,976)      |
| Total assessments receivable    | <u>\$247</u> |

### 6. Prepaid Expenses

Prepaid expenses at the reporting date consists of the following amounts:

|                        |                |
|------------------------|----------------|
| Insurance              | \$1,414        |
| Income taxes           | -0-            |
| Other expenses         | 996            |
| Total prepaid expenses | <u>\$2,410</u> |

# Island Park Village Association, Inc.

## Notes to Financial Statements September 30, 2015

### **7. Property and Equipment**

Property and equipment at the reporting date consists of the following amounts:

|                              |                  |
|------------------------------|------------------|
| Land                         | \$48,000         |
| Building                     | 173,932          |
| Vehicles and equipment       | 158,245          |
| Accumulated depreciation     | <u>(64,710)</u>  |
| Total property and equipment | <u>\$315,467</u> |

### **8. Accrued Expenses**

Accrued expenses at the reporting date consists of the following amounts:

|                        |                 |
|------------------------|-----------------|
| Property taxes         | \$12,644        |
| Payroll and related    | 1,234           |
| Sales tax              | <u>1,059</u>    |
| Total accrued expenses | <u>\$14,937</u> |

### **9. Future Major Repairs and Replacements**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

Complex Solutions, LTD. conducted a study in July 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3 percent and interest of 0.25 percent, net of taxes, on amounts funded for future repairs and replacements. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study. See the supplemental information presented on page 13 for additional details.

The Board of Directors commissioned the Association's initial reserve study near the end of the fiscal year. Accordingly, \$28,799 was included in the September 30, 2015 budget. Because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

# Island Park Village Association, Inc.

## Notes to Financial Statements

September 30, 2015

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### **10. Supplemental Cash Flow Information**

For the reporting period, cash flows from operating activities include the following amounts:

|                                       |              |
|---------------------------------------|--------------|
| State and federal income tax payments | <u>\$-0-</u> |
|---------------------------------------|--------------|

### **11. Financial Instruments**

The Association maintains operating and reserve accounts at certain financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Association occasionally maintains deposits in excess of federally insured limits. At the reporting date, the Association's cash in excess of FDIC insurance coverage totaled \$25,310 at September 30, 2015.

### **12. Prior Period Adjustment**

Certain errors resulting in an understatement of previously reported property and equipment were discovered in the current year. As part of the Change in Reporting Entity in a prior year, Island Park Village Association retained title to Block 4 of the land at the resort and it was incorrectly included as an asset of The Timbers Condominium Owner's Association, Inc. Accordingly, an adjustment of \$36,000 was made during the year ended September 30, 2015 to increase net property and equipment. A corresponding entry was made to increase the capital fund balance by \$36,000, net of \$-0- income taxes.

### **13. Subsequent Events**

Management has evaluated subsequent events through December 29, 2015, the date which the financial statements were available for issue. Management has determined there are no subsequent events that require recognition or disclosure in these financial statements.

Supplemental Information

Draft

## Island Park Village Association, Inc.

### Supplemental Information on Future Major Repairs and Replacements (Unaudited) September 30, 2015

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Complex Solutions Ltd. conducted a study in July 2015 to estimate the remaining useful lives and replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 0.25%, net of taxes, on amounts funded for future major repairs and replacements.

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

| <b>Component</b> | <b>Estimated<br/>Remaining<br/>Useful Life<br/>(Years)</b> | <b>Estimated<br/>July 2015<br/>Replacement<br/>Cost</b> | <b>Estimated<br/>2016<br/>Funding<br/>Requirement</b> | <b>Reserve<br/>Expenditures<br/>for the Year<br/>9/30/15</b> | <b>Replacement<br/>Fund Balance<br/>9/30/15</b> |
|------------------|--|---|---|--|---|
| Common area      | 0-22   | \$ 580,855  | \$ 64,922   | \$ (30,157)  | \$ 337,414                                      |
| Golf course      | 0-17   | 418,184   | 46,741  | (2,251)  | 242,920   |
| Clubhouse        | 0-11   | 171,217   | 19,137  | (7,532)  | 99,459  |
| Cash deficit     |  | -   | -   | -  | (357,349)                                       |
| Sub-total        |  | 1,170,256   | 130,800   | (39,940)   | 322,444   |
| Water utility    | 0-23   | 112,800   | 15,840  | (11,500)   | 161,041   |
| Totals           |  | <u>\$ 1,283,056</u>                                     | <u>\$ 146,640</u>                                     | <u>\$ (51,440)</u>   | <u>\$ 483,485</u>                               |

See auditors' report.