

Financial Statements

Island Park Village Association, Inc.

**For the Year Ended
September 30, 2016**

Draft

Island Park Village Association, Inc.

Contents

September 30, 2016

(Summarized Totals for 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, 2016, 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, 2016, 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.

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.

Other Matter

The prior year summarized comparative information has been derived from the Association's September 30, 2015 financial statements and, in our report dated December 29, 2015 we expressed an unqualified opinion on those financial statements.

Redlands, California
December 23, 2016

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Island Park Village Association, Inc.

Balance Sheet

For the Year Ended September 30, 2016

(Summarized Totals for September 30, 2015)

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>Water Utility Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
Assets						
Cash, including interest-bearing deposits	\$ 60,414	\$ 265,673	\$ -	\$ 246,798	\$ 572,885	\$ 516,320
Cash in bank - restricted	-	5,361	-	-	5,361	9,440
Accounts receivable, net	26	-	-	-	26	247
Prepaid expenses	2,791	-	-	-	2,791	2,410
Note receivable	-	-	75,000	-	75,000	150,000
Property and equipment, net	-	-	283,564	12,234	295,798	315,467
Interfund balances	(32,481)	41,929	-	(9,448)	-	-
Total assets	<u>\$ 30,750</u>	<u>\$ 312,963</u>	<u>\$ 358,564</u>	<u>\$ 249,584</u>	<u>\$ 951,861</u>	<u>\$ 993,884</u>
Liabilities and Fund Balances						
Accounts payable	\$ 19,158	\$ -	\$ -	\$ 900	\$ 20,058	\$ 17,848
Accrued expenses	18,680	-	-	-	18,680	14,937
Income taxes payable	-	-	-	-	-	2,721
Prepaid assessment	1,680	-	-	-	1,680	-
Total liabilities	39,518	-	-	900	40,418	35,506
Fund balances (deficits)	(8,768)	312,963	358,564	248,684	911,443	958,378
Total liabilities and fund balances	<u>\$ 30,750</u>	<u>\$ 312,963</u>	<u>\$ 358,564</u>	<u>\$ 249,584</u>	<u>\$ 951,861</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, 2016
(Summarized Totals for September 30, 2015)**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>Water Utility Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
Revenue						
Member assessments, net of discounts	\$ 58,179	\$ 46,536	\$ -	\$ -	\$ 104,715	\$ 104,917
Water assessments	-	-	-	29,134	29,134	29,132
Golf course and clubhouse	151,803	-	-	-	151,803	147,311
Golf surcharge income	-	7,868	-	-	7,868	9,440
Interest income	28	1,329	-	1,288	2,645	3,344
Gain (loss) on sale of property and equipment	2,829	-	-	-	2,829	28,341
Other income (schedule)	24,381	-	-	-	24,381	13,523
Total revenue	<u>237,220</u>	<u>55,733</u>	<u>-</u>	<u>30,422</u>	<u>323,375</u>	<u>336,008</u>
Expenses						
Golf course and clubhouse Facilities	152,335	-	-	-	152,335	137,984
Maintenance (schedule)	33,657	-	-	-	33,657	20,109
General and administrative Services (schedule)	68,037	-	-	11,605	79,642	110,738
Income taxes	870	-	-	-	870	3,771
Bad debt expense	-	-	-	-	-	489
Water system expenses	-	-	-	12,053	12,053	25,007
Utility expense (net of rebate)	2,091	-	-	-	2,091	(5,504)
Depreciation expense	-	-	19,436	233	19,669	13,018
Repairs and replacements	-	54,142	-	15,851	69,993	51,440
Total expenses	<u>256,990</u>	<u>54,142</u>	<u>19,436</u>	<u>39,742</u>	<u>370,310</u>	<u>357,052</u>
Excess revenue (expenses)	(19,770)	1,591	(19,436)	(9,320)	(46,935)	(21,044)
Fund balances, beginning	11,002	236,372	453,000	258,004	958,378	979,422
Fund transfers	-	75,000	(75,000)	-	-	-
Fund balances (deficits), ending	<u>\$ (8,768)</u>	<u>\$ 312,963</u>	<u>\$ 358,564</u>	<u>\$ 248,684</u>	<u>\$ 911,443</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, 2016
(Summarized Totals for September 30, 2015)**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Fund</u>	<u>Water Utility Fund</u>	<u>2016 Total</u>	<u>2015 Total</u>
Cash Flows From Operating Activities						
Excess revenue (expenses)	\$ (19,770)	\$ 1,591	\$ (19,436)	\$ (9,320)	\$ (46,935)	\$ (21,044)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:						
Depreciation	-	-	19,436	233	19,669	13,018
Gain (loss) on sale of property and equipment	-	-	-	-	-	6,689
Changes in:						
Accounts receivable	221	-	-	-	221	4,596
Prepaid expenses	(381)	-	-	-	(381)	14,761
Note receivable	-	-	75,000	-	75,000	-
Accounts payable	5,345	-	-	(3,135)	2,210	(30,332)
Accrued expenses	3,743	-	-	-	3,743	(1,729)
Income taxes payable	(2,721)	-	-	-	(2,721)	2,721
Prepaid assessments	1,680	-	-	-	1,680	-
Net cash provided (used) by operating activities	<u>(11,883)</u>	<u>1,591</u>	<u>75,000</u>	<u>(12,222)</u>	<u>52,486</u>	<u>(11,320)</u>
Cash Flows From Investing Activities						
Purchase of property and equipment	-	-	-	-	-	(263,514)
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(263,514)</u>
Cash Flows From Financing Activities						
Interfund balances	30,022	(128,001)	-	97,979	-	-
Fund transfers	-	75,000	(75,000)	-	-	-
Net cash provided (used) by financing activities	<u>30,022</u>	<u>(53,001)</u>	<u>(75,000)</u>	<u>97,979</u>	<u>-</u>	<u>(185,033)</u>
Net increase (decrease) in cash	18,139	(51,410)	-	85,757	52,486	(459,867)
Cash, beginning of year	<u>42,275</u>	<u>322,444</u>	<u>-</u>	<u>161,041</u>	<u>525,760</u>	<u>985,627</u>
Cash, end of year	<u>\$ 60,414</u>	<u>\$ 271,034</u>	<u>\$ -</u>	<u>\$ 246,798</u>	<u>\$ 578,246</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, 2016 (Summarized Totals for September 30, 2015)

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	<u>2016</u> <u>Total</u>	<u>2015</u> <u>Total</u>
Other Income		
Late fees	1,567	1,060
Snow removal	12,461	6,026
Bad debt recovery	1,446	-
Other	8,907	6,437
Total other income	<u>\$ 24,381</u>	<u>\$ 13,523</u>
Maintenance		
Exterior maintenance salaries and related	\$ 222	\$ 1,914
Outside services	9,916	3,659
Snow removal	23,519	14,536
Total maintenance	<u>\$ 33,657</u>	<u>\$ 20,109</u>
General and Administrative Services		
Audit and tax fees	\$ 5,004	\$ 5,000
Board meetings and board travel	903	789
Insurance	7,709	5,808
Legal and collection fees	9,315	28,826
Management and accounting fees	24,609	30,391
Property taxes	3,454	12,010
Telephone and television	2,211	3,821
General and administrative salaries and related	17,353	14,195
Bank and merchant fees	3,916	4,666
Printing and stationary	678	1,949
Postage and delivery	298	93
Supplies	587	136
G & A allocated to Water Utility Fund	(11,605)	-
Other general and administrative	3,605	3,054
Total general and administrative services	<u>\$ 68,037</u>	<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, 2016

(Summarized Totals for 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

Comparative Information

The financial statements include certain 2015 comparative information. With respect to the balance sheet, the statement of revenue, expenses and changes in fund balances and the statement of cash flows, such prior year information is not presented by fund. Accordingly, such information should be read in conjunction with the Association's financial statement for the year ended September 30, 2015 from which the summarized information was derived.

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

Island Park Village Association, Inc.

Notes to Financial Statements

September 30, 2016

(Summarized Totals for September 30, 2015)

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2. *Significant Accounting Policies* (concluded)

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.

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, 2016

(Summarized Totals for 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, 2016 and 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.

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:

	<u>2016</u>	<u>2015</u>
Beginning balance at October 1,	\$9,440	\$-0-
Golf course funds collected	7,868	9,440
Improvements and equipment purchased for the golf course	(11,947)	-0-
Total restricted cash	<u>\$5,361</u>	<u>\$9,440</u>

5. Accounts Receivable

Accounts receivable at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Member assessments	\$544	\$2,223
Allowance for doubtful accounts	(518)	(1,976)
Total assessments receivable	<u>\$26</u>	<u>\$247</u>

Island Park Village Association, Inc.

Notes to Financial Statements

September 30, 2016

(Summarized Totals for September 30, 2015)

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6. Prepaid Expenses

Prepaid expenses at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Insurance	\$669	\$1,414
Income taxes	610	-0-
Other expenses	<u>1,512</u>	<u>996</u>
Total prepaid expenses	<u>\$2,791</u>	<u>\$2,410</u>

7. Property and Equipment

Property and equipment at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Land	\$48,000	\$48,000
Building	173,932	173,932
Vehicles and equipment	151,245	158,245
Accumulated depreciation	<u>(77,379)</u>	<u>(64,710)</u>
Total property and equipment	<u>\$295,798</u>	<u>\$315,467</u>

8. Accrued Expenses

Accrued expenses at the reporting dates consist of the following amounts:

	<u>2016</u>	<u>2015</u>
Property taxes	\$12,656	\$12,644
Payroll and related	5,141	1,234
Sales tax	<u>883</u>	<u>1,059</u>
Total accrued expenses	<u>\$18,680</u>	<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.

Island Park Village Association, Inc.

Notes to Financial Statements

September 30, 2016

(Summarized Totals for September 30, 2015)

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9. Future Major Repairs and Replacements (concluded)

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 decided to fund 36 percent of the amount recommended by the reserve study for the year ended September 30, 2016. Accordingly, \$46,536 was included in the September 30, 2016 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.

10. Supplemental Cash Flow Information

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

	<u>2016</u>	<u>2015</u>
State and federal income tax payments	<u>\$1,902</u>	<u>\$-0-</u>

Noncash investing and financing activities are as follows:

A \$150,000 note receivable from related association during the year ended September 30, 2015 as a result of change in reporting entities.

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 dates, the Association's cash in excess of FDIC insurance coverage totaled \$-0- and \$25,310 at September 30, 2016 and September 30, 2015 respectively.

12. Subsequent Events

Management has evaluated subsequent events through December 23, 2016, 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.

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Supplemental Information

Island Park Village Association, Inc.

Supplemental Information on Future Major Repairs and Replacements (Unaudited) September 30, 2016

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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.

Component	Estimated Remaining Useful Life (Years)	Estimated July 2015 Replacement Cost	Estimated 2017 Funding Requirement	Reserve Expenditures for the Year 9/30/16	Replacement Fund Balance 9/30/16
Common area	0-21	\$ 580,855	\$ 64,922	\$ (21,755)	\$ 290,171
Golf course	0-16	418,184	46,741	(22,028)	208,907
Clubhouse	0-10	171,217	19,137	(10,359)	85,533
Cash deficit		-	-	-	(271,648)
Sub-total		1,170,256	130,800	(54,142)	312,963
Water utility	0-22	112,800	15,840	(15,851)	248,684
Totals		<u>\$ 1,283,056</u>	<u>\$ 146,640</u>	<u>\$ (69,993)</u>	<u>\$ 561,647</u>

See auditors' report.