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# TANNER

BUSINESS ADVISORS AND  
CERTIFIED PUBLIC ACCOUNTANTS

CRITICAL KNOWLEDGE



PROACTIVE INSIGHT



**RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.**

**Financial Statements and Supplementary Information  
As of December 31, 2013 and 2012 and for the Years Then Ended**

**Together with Independent Auditors' Report**



## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors and Members of Red Cloud Subdivision Homeowners Association, Inc.

We have audited the accompanying financial statements of Red Cloud Subdivision Homeowners Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2013, the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to 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.

### Auditors' 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 auditors' 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 auditors consider 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 Red Cloud Subdivision Homeowners Association, Inc. as of December 31, 2013, 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.

**Summarized Comparative Information**

We have previously audited the Association's 2012 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated May 28, 2013. The summarized financial information for 2012 does not include all information required by accounting principles generally accepted in the United States of America for a complete set of financial statements and related notes. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Unaudited Supplementary Information**

Accounting principles generally accepted in the United States of America require that the unaudited supplementary information on future major repairs and replacements 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 unaudited 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.

*Tanner LLC*

September 29, 2014



RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.  
Balance Sheets

As of December 31,

	2013			2012
	Operating Fund	Major Repairs and Replacements Fund	Total	Total (For comparative purposes only)
<b><u>Assets</u></b>				
Cash	\$ 19,569	\$ 1,000	\$ 20,569	\$ 20,134
Receivables from members	-	-	-	3
Interfund receivable (payable)	(5,564)	5,564	-	-
Prepaid expenses	750	-	750	691
Equipment and furnishings, net	49,971	-	49,971	56,291
Total assets	<u>\$ 64,726</u>	<u>\$ 6,564</u>	<u>\$ 71,290</u>	<u>\$ 77,119</u>
<b><u>Liabilities and Fund Balances</u></b>				
Accounts payable	\$ 1,304	\$ -	\$ 1,304	\$ 1,023
Accrued expenses	772	-	772	360
Payable to related party, net	27,989	-	27,989	39,034
Deferred revenue - unearned assessments	17,550	-	17,550	17,136
Total liabilities	47,615	-	47,615	57,553
Commitments and contingencies				
Fund balances	17,111	6,564	23,675	19,566
Total liabilities and fund balances	<u>\$ 64,726</u>	<u>\$ 6,564</u>	<u>\$ 71,290</u>	<u>\$ 77,119</u>



**RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.**  
**Statements of Revenues, Expenses, and Changes in Fund Balances**

**For the Years Ended December 31,**

	<b>2013</b>			<b>2012</b>
	<b>Operating Fund</b>	<b>Major Repairs and Replacements Fund</b>	<b>Total</b>	<b>Total (For comparative purposes only)</b>
Revenues:				
Member assessments	\$ 24,480	\$ -	\$ 24,480	\$ 23,259
Interest income	1	-	1	-
Miscellaneous income	-	-	-	3,862
Total revenues	<u>24,481</u>	<u>-</u>	<u>24,481</u>	<u>27,121</u>
Expenses:				
Administrative	3,575	-	3,575	-
Repairs and maintenance	3,471	-	3,471	17,944
Depreciation	6,320	-	6,320	2,216
Insurance	2,942	-	2,942	2,073
Professional fees	4,064	-	4,064	1,500
Income taxes	-	-	-	75
Total expenses	<u>20,372</u>	<u>-</u>	<u>20,372</u>	<u>23,808</u>
Excess of revenues over expenses	4,109	-	4,109	3,313
Fund balances, beginning of year	<u>13,002</u>	<u>6,564</u>	<u>19,566</u>	<u>16,253</u>
Fund balances, end of year	<u>\$ 17,111</u>	<u>\$ 6,564</u>	<u>\$ 23,675</u>	<u>\$ 19,566</u>



RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.  
Statements of Cash Flows

For the Years Ended December 31,

	2013			2012
	Operating Fund	Major Repairs and Replacements Fund	Total	Total (For comparative purposes only)
<b>Cash flows from operating activities:</b>				
Excess of revenues over expenses	\$ 4,109	\$ -	\$ 4,109	\$ 3,313
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Depreciation	6,320	-	6,320	2,216
Gain on disposal of equipment	-	-	-	(413)
Decrease (increase) in:				
Receivables from members	3	-	3	2,446
Prepaid expenses	(59)	-	(59)	(691)
Increase (decrease) in:				
Accounts payable	281	-	281	990
Accrued expenses	412	-	412	360
Payable to related party	(11,045)	-	(11,045)	38,990
Deposits payable	-	-	-	(1,000)
Deferred revenue - unearned assessments	414	-	414	13,464
Net cash provided by operating activities	435	-	435	59,675
<b>Cash flows from investing activities:</b>				
Purchase of equipment	-	-	-	(54,813)
Proceeds from the disposal of equipment	-	-	-	7,000
Net cash used in investing activities	-	-	-	(47,813)
Net increase in cash	435	-	435	11,862
Cash at beginning of year	19,134	1,000	20,134	8,272
Cash at end of year	\$ 19,569	\$ 1,000	\$ 20,569	\$ 20,134
<b>Supplemental disclosures of cash flow information:</b>				
Cash paid for income taxes			\$ -	\$ 75
Cash paid for interest			\$ -	\$ -



**1. Organization and Summary of Significant Policies**

***Organization and Activities***

Red Cloud Subdivision Homeowners Association, Inc. (the Association) was organized in 2005 as a not-for-profit corporation to function as the homeowners association for a 50 acre planned community located in Park City, Utah. As of December 31, 2013, the Association consisted of 30 single family units.

***Fund Accounting***

The Association's governing documents provide certain guidelines for conducting 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	Used to account for financial resources available for the general operations of the Association.
Major Repairs and Replacements Fund	Used to accumulate financial resources designated for future major repairs and replacements of common property.

***Basic Member Assessments***

Each year a basic member assessment is determined based on advance estimates of the Association's expenses for maintenance and operation of common areas. Such estimated expenses may include expenses of management, property taxes, insurance premiums, repairs and maintenance, wages, utilities, legal and accounting fees, deficits remaining from previous periods (if any), creation of an adequate contingency reserve, creation of an adequate reserve for major repairs and replacements, and any other expenses and liabilities allowed by the governing documents.

***Special Member Assessments***

In addition to the basic member assessment, the Association may levy special assessments at any time upon the affirmative vote of at least 51% of total votes of HOA members. These assessments may be used for construction, reconstruction, repair or replacement and capital improvements, or other extraordinary expenses incurred by the Association. For the years ended December 31, 2013 and 2012, there were no special assessments that were assessed the Association's members.



**1. Organization and Summary of Significant Policies**  
*Continued*

***Receivables from Members***

The Association had recorded \$0 and \$3 in assessments receivable from members for which an allowance for uncollectible accounts of \$0 and \$0 had been established as of December 31, 2013 and 2012, respectively. Assessments receivable from members represent delinquent assessments from homeowners. The Association's policy is to retain counsel and place liens on properties where accounts are delinquent. Assessments are considered delinquent when payment has not been received within 30 days of the invoice date. The amounts of the specific reserves are estimated by management based on various assumptions including the member's financial position, age of the member's receivables, and changes in payment schedules and histories. Account balances are charged off against the allowance for uncollectible accounts from members when the potential for recovery is remote. Recoveries of receivables previously charged off are recorded when payment is received.

***Common Area Assets***

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements; those properties are owned by the individual members in common and not by the Association. The Association's policy for recognizing common property as assets on its balance sheet is to recognize the cost of common personal property, which it owns, and common real property when the Association has title or other evidence of ownership and the board of directors has the right to dispose of the property at its discretion. Maintenance, repairs, and renewals, which neither materially add to the value of the capitalized assets nor appreciably prolong their lives, are charged to expense as incurred. Gains or losses from the sale or retirement of common assets are included in the statement of revenues, expenses, and changes in fund balances. Equipment and furnishings are depreciated over their estimated useful lives on a straight-line basis. Useful lives of capitalized common property (equipment and furnishings) range from 3 to 20 years.

***Income Taxes***

The Association has the option annually to choose whether to file its income tax returns as a regular corporation or as a homeowners' association subject to qualifications. When filing as a homeowners' association, certain revenue, such as revenue derived from uniform assessments to owners, is treated as exempt; only investment income and other nonexempt income are subject to tax.

When the Association files as a regular corporation, amounts funded as special or capital assessments for future improvements generally are not subject to income taxes. Under this method, non-member income is subject to tax.



1. **Organization and Summary of Significant Policies**  
*Continued*

***Income Taxes – Continued***

Accounting principles generally accepted in the United States of America (US GAAP) requires management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain tax position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions for tax years for which the applicable statutes of limitations have not expired; however, there are currently no audits for any tax periods in progress. Management believes the Association is no longer subject to income tax examinations for years prior to 2010.

***Deferred Revenue – Unearned Assessments***

Assessments are billed to the members in advance of the period in which the budgeted expenses are to be incurred. Those assessments received in advance of the period for which they were assessed are shown in the accompanying financial statements as deferred revenue. Assessments are recognized as revenue as they are earned throughout the year.

***Financial Statement Presentation and Estimates***

The accounting and reporting policies of the Association conform with US GAAP and with general practices in the Common Interest Realty Association industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

***Concentration of Credit Risk***

The Association maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. To date, the Association has not experienced a loss or lack of access to its invested cash and cash equivalents; however, no assurance can be provided that access to the Association's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

***Comparative Totals for 2012***

The 2012 total columns in the financial statements are for comparison only. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP; accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2012, from which the summarized information was derived.



**RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.**  
**Notes to Financial Statements**  
*Continued*

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**1. Organization and Summary of Significant Policies**  
*Continued*

***Subsequent Events***

The Association has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**2. 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 bank accounts and generally are not available for expenditures for normal operations.

The Association's board authorized Complex Solutions Ltd. to complete a reserve study for the period of January 1, 2012 through December 31, 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was completed in May of 2012 for the year ended December 31, 2012. Actual expenditures and interest income may vary from the reserve study estimates and the variations may be material; therefore, amounts accumulated in the Major Repairs and Replacements 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, make special assessments, or delay major repairs and replacements until funds are available.

The Association has recorded a net payable of \$5,564 in the operating fund, representing assessments not yet transferred to the major repairs and replacements fund as of December 31, 2013 and 2012.

**3. Subsidy Income**

During the period of developer control, the Association's governing documents require the developer to subsidize the Association's operating expenses in excess of operating revenues. As the 2013 and 2012 revenues exceeded expenses, no subsidy income was recognized for the years ended December 31, 2013 and 2012.

**4. Equipment and Furnishings, net**

Equipment and furnishings consisted of the following as of December 31:

	<u>2013</u>	<u>2012</u>
Equipment and furnishings	\$ 59,009	\$ 59,009
Less accumulated depreciation	<u>(9,038)</u>	<u>(2,718)</u>
	<u>\$ 49,971</u>	<u>\$ 56,291</u>

Depreciation expense for the years ended December 31, 2013 and 2012 was \$6,320 and \$2,216, respectively.



**RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.**  
**Notes to Financial Statements**  
*Continued*

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- 5. Payable to Related Party** In 2012, the Association received a loan of \$39,034 from Empire Pass Master Owners Association, Inc. (Empire Pass), a related party. There was an outstanding balance on the loan of \$27,989 and \$39,034 as of December 31, 2013 and 2012, respectively. Monthly payments are at \$1,289 per month through December 2015, with interest at 9.75%. Future maturities of the loan are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 13,290
2015	14,699
	<u>\$ 27,989</u>

- 6. Commitments and Contingencies** *Legal Matters*  
The Association may be involved in legal proceedings from time to time arising in the normal course of its activities. Management is not aware of any such matters which it believes will have a material adverse impact on the Association's financial position, results of operations, or liquidity.

- 7. Related-Party Transactions** The underlying concept of a common interest realty association is control by members with and for whom the Association conducts its operations. The Association is involved in significant related party transactions as a result of its normal activities with members.

During 2013 and 2012, the Association shared certain services and supply costs with Empire Pass. As of December 31, 2013 and 2012, amounts owed to Empire Pass on behalf of the Association totaled \$1,299 and \$0, respectively.



**RED CLOUD SUBDIVISION HOMEOWNERS ASSOCIATION, INC.**  
**Supplementary Information on Future Major Repairs and Maintenance (Unaudited)**

**For the Year Ended December 31, 2013**

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The Association's board authorized Complex Solutions, Ltd. to complete a reserve study for the year ended December 31, 2012, to estimate the remaining useful lives and the replacement costs of the components of common property. This study has been utilized to provide the information below for 2013, as management believes that no significant differences would exist. The study was completed after a site visit and was issued in May of 2012. The estimates were based on estimated replacement costs over the next 30 years. Funding requirements are based on an annual inflation rate of 3.00 percent and an interest rate of 0.50 percent on the amounts funded for future major repairs and replacements.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Average Estimated Replacement Costs</u>
Vehicle gate operators – replace	7	\$ 5,000
Emergency generators – replace	15	65,000
Pump controller – replace	3	10,000
Pumps – replace	15	4,000
Fire pump – replace	15	16,500
Pressure reducing valve – replace	3	5,000
		<u>\$ 105,500</u>

As of December 31, 2013, the reserve fund was approximately 10% funded compared to the ideal reserve balance on that date.