

# **Pinnacle Homeowners Association**

**Year Ended December 31, 2022**

**Financial Statements  
With Supplementary Information**

**And**

**Independent Auditor's Report**



# Pinnacle Homeowners Association

## Table of Contents

Independent Auditor's Report	1
Financial Statements	
Balance Sheet	4
Statement of Revenues, Expenses, and Comprehensive Income	5
Statement of Changes in Fund Balance	6
Statement of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	
Repairs, Replacements, and Future Acquisitions (unaudited)	12



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Pinnacle Homeowners Association  
Park City, Utah

### ***Opinion***

We have audited the accompanying financial statements of Pinnacle Homeowners Association, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues, expenses, comprehensive income and changes in fund balance, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Homeowners Association as of December 31, 2022, 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.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Pinnacle Homeowners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Basis for Qualified Opinion***

The Association has declined to implement ASC 606, *Revenue from Contracts with Customers*, because it believes it misstates the financial statements for management and the users of the financial statements. Accounting principles generally accepted in the United States of America require revenue to be recognized in accordance with ASC 606. The impact of this departure has not been determined. The Association has chosen to follow revenue recognition prior to ASC 606 guidance (FASB ASC 972-605, *Real Estate-Common Interest Realty Associations, Revenue Recognition*).

### ***Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Pinnacle Homeowners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Pinnacle Homeowners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Pinnacle Homeowners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### ***Emphasis of Matter***

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds reserved for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

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

Accounting principles generally accepted in the United States of America require that the Repairs, Replacements, and Future Acquisitions on page 12 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.

***Report on Summarized Comparative Information***

Another auditor previously audited Pinnacle Homeowners Association's December 31, 2021 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated February 25, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Bountiful Peak Advisors*

Bountiful, Utah  
March 1, 2023

# Pinnacle Homeowners Association

## Balance Sheet

December 31, 2022

With Comparative Totals for December 31, 2021

	12/31/2022		12/31/2021	
	Operating Fund	Replacement & Restoration Fund	Operating Fund	Replacement & Restoration Fund
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 345,884	\$ 3,007,398	\$ 156,260	\$ 1,702,361
Assessments receivable, net	9,506	-	3,224	-
Other receivables	-	-	8,232	-
Investments	-	73,319	-	104,273
Due from operating fund	-	276,986	-	91,997
Prepaid income taxes	386	-	2,680	-
	<u>355,776</u>	<u>3,357,703</u>	<u>170,396</u>	<u>1,898,631</u>
Other assets				
Security boxes	5,000	-	5,000	-
Less: accumulated depreciation	(5,000)	-	(5,000)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other assets	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 355,776</u>	<u>\$ 3,357,703</u>	<u>\$ 170,396</u>	<u>\$ 1,898,631</u>
<b>LIABILITIES AND FUND BALANCE</b>				
Current liabilities				
Accounts payable	\$ 72,142	\$ -	\$ 62,066	\$ -
Income taxes payable	371	-	-	-
Assessments received in advance	6,277	-	16,333	-
Due to operating fund	276,986	-	91,997	-
	<u>355,776</u>	<u>-</u>	<u>170,396</u>	<u>-</u>
Total current liabilities	-	-	-	-
Fund balance	<u>-</u>	<u>3,357,703</u>	<u>-</u>	<u>1,898,631</u>
Total liabilities and fund balance	<u>\$ 355,776</u>	<u>\$ 3,357,703</u>	<u>\$ 170,396</u>	<u>\$ 1,898,631</u>

See accompanying notes to financial statements.

**Pinnacle Homeowners Association**  
**Statement of Revenues, Expenses, and Changes in Fund Balance**  
**Year Ended December 31, 2022**  
**With Comparative Totals for the Year Ended December 31, 2021**

	12/31/2022			12/31/2021
	Operating	Replacement & Restoration	Total	Total
	Fund	Fund	Total	Total
<b>REVENUE</b>				
Regular assessments	\$ 1,069,792	\$ -	\$ 1,069,792	\$ 1,046,579
Special assessments	-	5,700,080	5,700,080	-
Gain (loss) on investments	-	11,797	11,797	(6,262)
Interest income	-	11,723	11,723	13,780
Other fees	2,836	-	2,836	604
	<u>1,072,628</u>	<u>5,723,600</u>	<u>6,796,228</u>	<u>1,054,701</u>
<b>Total revenue</b>				
	<u>1,072,628</u>	<u>5,723,600</u>	<u>6,796,228</u>	<u>1,054,701</u>
<b>EXPENSES</b>				
Community enhancement	-	4,624,169	4,624,169	27,633
Snow removal	137,916	-	137,916	85,492
Landscaping	129,822	-	129,822	118,466
Repairs and maintenance	110,585	-	110,585	126,555
Insurance	72,420	-	72,420	66,492
Cable television	66,032	-	66,032	62,652
Property management fee	48,550	-	48,550	46,238
Security	47,886	-	47,886	72,372
Trash removal	22,071	-	22,071	21,621
Shuttle service	19,565	-	19,565	17,738
Professional fees	12,112	-	12,112	9,750
Christmas decorations	10,128	-	10,128	9,788
Window cleaning	8,344	-	8,344	7,560
Income taxes	6,085	-	6,085	8,678
Chimney sweeping	5,770	-	5,770	3,525
Utilities	5,645	-	5,645	6,000
Office expenses	4,289	-	4,289	5,945
Pest control	4,287	-	4,287	2,604
Legal	1,030	-	1,030	1,776
Bank fees	450	-	450	113
	<u>712,987</u>	<u>4,624,169</u>	<u>5,337,156</u>	<u>700,998</u>
<b>Total expenses</b>				
	<u>712,987</u>	<u>4,624,169</u>	<u>5,337,156</u>	<u>700,998</u>
<b>Excess of revenues over expenses</b>	<u>\$ 359,641</u>	<u>\$ 1,099,431</u>	<u>\$ 1,459,072</u>	<u>\$ 353,703</u>

See accompanying notes to financial statements.

# Pinnacle Homeowners Association

## Statement of Changes in Fund Balance

Year Ended December 31, 2022

	<u>Fund balance</u>		
	<u>Operating</u>	<u>Replacement &amp; Restoration Fund</u>	<u>Total</u>
Balance, 12/31/2021	\$ -	\$ 1,898,631	\$ 1,898,631
Excess of revenues over expenses	359,641	1,099,431	1,459,072
Fund transfers	<u>(359,641)</u>	<u>359,641</u>	<u>-</u>
Balance, 12/31/2022	<u>\$ -</u>	<u>\$ 3,357,703</u>	<u>\$ 3,357,703</u>

See accompanying notes to financial statements.



**Pinnacle Homeowners Association**  
**Statement of Cash Flows**  
**Year Ended December 31, 2022**  
**With Comparative Totals for the Year Ended December 31, 2021**

	12/31/2022			12/31/2021
	Replacement & Restoration			
	Operating Fund	Fund	Total	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess of revenues over expenses	\$ 359,641	\$ 1,099,431	\$ 1,459,072	\$ 353,703
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Fund transfers	(177,192)	177,192	-	-
Unrealized gains on investments	-	(11,797)	(11,797)	6,262
Changes in current assets and liabilities:				
Assessments receivable, net	(6,282)	-	(6,282)	(3,204)
Other receivables	8,232	-	8,232	(8,232)
Prepaid income taxes	2,294	-	2,294	(2,135)
Accounts payable	10,076	-	10,076	(58,015)
Assessments received in advance	(7,516)	-	(7,516)	8,251
Income taxes payable	371	-	371	-
	189,624	1,264,826	1,454,450	296,630
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of investments		40,211	40,211	1,201,039
Cash purchases of investments	-	-	-	(96,313)
	-	40,211	40,211	1,104,726
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
	-	-	-	-
Net change in cash and cash equivalents	189,624	1,305,037	1,494,661	1,401,356
Cash and cash equivalents, beginning of year	156,260	1,702,361	1,858,621	457,265
Cash and cash equivalents, end of year	\$ 345,884	\$ 3,007,398	\$ 3,353,282	\$ 1,858,621
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
Cash paid for interest			\$ -	\$ -
Cash paid for income taxes			\$ 3,420	\$ 19,590

See accompanying notes to financial statements.

# Pinnacle Homeowners Association

## Notes to Financial Statements

December 31, 2022

### 1. NATURE OF ASSOCIATION

Pinnacle Homeowners Association (the “Association”) is a statutory condominium association incorporated in the State of Utah on December 6, 1982. The Association is responsible for the operation and maintenance of the common property of the Association. The Association consists of 86 residential units located on approximately 39 acres in Park City, Utah.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Date of Management’s Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 1, 2023, the date that the financial statements were available to be issued.

#### 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 & Restoration Fund—this fund is used to accumulate financial resources designated for future major repairs, replacements, and exterior restoration projects.

#### Cash Equivalents

The Association considers all highly-liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

#### Member Assessments

Association members are subject to quarterly assessments, at the beginning of each quarter, to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are recognized as revenue as performance obligations related to the operation and maintenance of the common property of the Association are satisfied over time. Assessments receivable at the balance sheet date represent assessments due from unit owners. The Association’s policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent, which minimizes doubtful accounts. Assessments are considered delinquent after 60 days of nonpayment. An allowance for doubtful accounts is established based on a review of individual account balances. Uncollectible accounts are charged to the allowance account when collection appears doubtful. At December 31, 2022, the Association’s allowance was \$0. Financing charges are applied to the homeowner’s account if dues are 30 days past due. Any excess assessments at year end are retained by the Association for use in future years. Pursuant to the Condominium Declaration and Bylaws of the Association, dues are allocated to the unit owners on the basis of their relative ownership interests in the condominium property. Members sometimes pay in advance of dues. These payments are recorded as assessments received in advance.

The net balance of assessments receivable as of December 31, 2022, was \$9,506. The net balance of assessments received in advance was \$6,277 as of December 31, 2022.

## Notes (continued)

The Association has declined to implement ASC 606, *Revenue from Contracts with Customers*, because it believes it misstates the financial statements for management and the users of the financial statements. Accounting principles generally accepted in the United States of America require revenue to be recognized in accordance with ASC 606. The impact of this departure has not been determined. The Association has chosen to follow revenue recognition prior to ASC 606 guidance (FASB ASC 972-605, *Real Estate-Common Interest Realty Associations, Revenue Recognition*).

### Marketable Securities

The Association maintains investments in equity securities with readily determinable fair values are measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in net income.

### Homeowners Construction Escrow

Homeowners are required to place an escrow amount with the Association whenever they will be doing a construction project on their home or property. The Association holds the funds until the project is complete. After evaluating whether the construction projects meet the Association's applicable rules and covenants, the Association will return the deposit to the homeowners.

### Property and Common Areas

Real property and common areas acquired from the developer, and related improvements to such property, are not recorded in the Association's financial statement because those properties are owned by the individual unit owners in common and not by the Association.

### Impairment of Long-Lived Assets

The Association evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amounts of the assets may not be fully recoverable. The Association evaluates the recoverability of long-lived assets by measuring the carrying amounts of the assets against the estimated undiscounted future cash flows associated with them. When future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying amounts of the assets, the assets are adjusted to their fair values.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 for the year ended December 31, 2022. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest, is taxed at 30% by the federal government and at 5% by the State of Utah. Total income tax expense for the year ended December 31, 2022 was comprised of the following:

Federal	\$ 5,994
State	<u>811</u>
	<u>\$ 6,805</u>

## Notes (continued)

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal and state income tax returns for December 31, 2022, 2021, 2020, and 2019 remain open to examination by the Internal Revenue Service or the State of Utah. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

### Concentrations of Credit Risks

The Association maintains its cash in various deposit accounts, the balances of which are occasionally in excess of federally insured limits.

### 3. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.
Level 2	Inputs to the valuation methodology include <ul style="list-style-type: none"><li>• quoted prices for similar assets or liabilities in active markets;</li><li>• quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• inputs other than quoted prices that are observable for the asset or liability;</li><li>• inputs that are derived principally from or corroborated by observable market data by correlation or other means</li></ul> If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following tables sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of December 31, 2022:

	<b>Assets at Fair Value as of December 31, 2022</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 73,319	\$ -	\$ -	\$ 73,319
Totals	\$ 73,319	\$ -	\$ -	\$ 73,319

### 4. MANAGING AGENT

Burnside Property Maintenance Company was retained as the managing agent for 2022. Burnside was paid management fees of \$47.04 per unit, per month, through December 2022. They also provided repairs and maintenance and supervision of subcontractor services to the Association during the year.

## 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Funds are being accumulated based on estimated future costs and actual costs may vary from those estimates and the variations may be material. Accumulated funds were \$3,357,703 at December 31, 2022.

Per Utah law, the Association had an independent reserve analysis conducted, which was subsequent updated by the Board, to determine the needs of the Association to accumulate funds to cover the cost of repairing, replacing, and restoring common areas and facilities that have a useful life of three years or more. Costs that can be reasonably funded from the Association's general budget, or from other Association funds, were excluded. The study included the appropriate amount of reserve funds, including target levels of reserves versus actual levels of reserves.

Moneys in the reserve fund are not used for daily maintenance expenses or for any purpose other than the purpose for which the reserve fund was established, unless a majority of the unit owners vote to approve the use of reserve fund money for that purpose.

A majority of the unit owners voted not to fund the Association's future needs for major repairs and replacements through increased systematic assessments. Therefore, amounts are being accumulated in the replacement fund based on reserve guidelines established by the Board. Should these funds not be adequate to meet future needs, the Association has the right to increase regular annual dues, pass special assessments, or delay major repairs and replacements until funds are available.

## 6. COMMON PROPERTY.

Common property to which the Association holds title but are not recognized as assets on the balance sheet, include the gatehouse (996 square feet), the gatehouse furnishings, landscaped areas (including irrigation systems), and roads. The Association has no existing land or recreation leases. The Association is responsible for normal maintenance, repair, or replacement of common areas and facilities (including limited common areas). Major repairs to limited common areas are the responsibility of the unit owners. The Board may dispose of items of personal property for cash or claims to cash with the Association retaining the proceeds; however, to dispose of real property the directors must obtain the approval of the owners in accordance with the Declaration of Condominium, Covenants, Conditions, and Restrictions and a percentage of the mortgagees. The Association property – real, personal, or mixed – may not be used by the Association to generate significant cash flows from members on the basis of usage or from homeowners. The property is for the use and benefit of the owners (members of the Association).

## 7. PRIOR YEAR INFORMATION

The accompanying financial statements include certain 2021 summarized, comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. The financial information for the year ended December 31, 2021 is presented for comparative purposes only. The notes presented herein contain information relating to December 31, 2022 only.

## **SUPPLEMENTARY INFORMATION**

**Pinnacle Homeowners Association**  
**Repairs, Replacements, and Future Acquisitions (unaudited)**  
**December 31, 2022**

Facilities Advisors International, LLC (FAI) was engaged to prepare an estimate for the future repairs and replacements of the Association for the year beginning January 1, 2018. FAI estimated the remaining useful lives and the replacement costs of the components of the property and equipment the Association is responsible to maintain. The Association's Board has updated the independently prepared reserve analysis based on current estimated replacement costs as of December 31, 2022. Any project costs which are in excess of basic replacement will be funded from assessments at the time of the project and subject to a vote by homeowners.

Replacement costs were based on the estimated current costs to repair or replace the components at the date of the study.

The following table is based on the study as of January 1, 2018, updated by the Board as of December 31, 2022, and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Useful Lives</u>	<u>Estimated Remaining Useful Life Before Replacement</u>	<u>Estimated Costs to Replace</u>
Major repairs or replacements:			
Building	2-17 years		4,136,600
Landscaping	1-2 years		124,700
Lighting	4-10 years		150,500
Gatehouse	14 years		25,000
Paving	0-17 years		211,950
Plumbing	1 year		<u>25,800</u>
			<u>\$ 4,674,550</u>

See independent auditor's report.