

Pinnacle Homeowners Association

Year Ended December 31, 2023

**Financial Statements
With Supplementary Information**

And

Independent Auditor's Report



Pinnacle Homeowners Association

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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, 2023, 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, 2023, 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

We previously audited Pinnacle Homeowners Association's December 31, 2022 financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated March 1, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Bountiful Peak Advisors

Bountiful, Utah
February 27, 2024

Pinnacle Homeowners Association
Balance Sheet
December 31, 2023
With Comparative Totals for December 31, 2022

	12/31/2023		12/31/2022	
	Operating	Replacement &	Operating	Replacement &
	Fund	Restoration Fund	Fund	Restoration Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 456,275	\$ 1,950,919	\$ 345,884	\$ 3,007,398
Assessments receivable, net	15,766	-	9,506	-
Other receivables	-	-	-	-
Investments	-	61,661	-	73,319
Due from operating fund	-	319,238	-	276,986
Prepaid income taxes	-	-	386	-
	<u>472,041</u>	<u>2,331,818</u>	<u>355,776</u>	<u>3,357,703</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>\$ 472,041</u>	<u>\$ 2,331,818</u>	<u>\$ 355,776</u>	<u>\$ 3,357,703</u>
LIABILITIES AND FUND BALANCE				
Current liabilities				
Accounts payable	\$ 96,539	\$ -	\$ 72,142	\$ -
Income taxes payable	56,264	-	371	-
Assessments received in advance	-	-	6,277	-
Due to replacement & restoration fund	319,238	-	276,986	-
	<u>472,041</u>	<u>-</u>	<u>355,776</u>	<u>-</u>
Total current liabilities	<u>472,041</u>	<u>-</u>	<u>355,776</u>	<u>-</u>
Fund balance	<u>-</u>	<u>2,331,817</u>	<u>-</u>	<u>3,357,703</u>
Total liabilities and fund balance	<u>\$ 472,041</u>	<u>\$ 2,331,817</u>	<u>\$ 355,776</u>	<u>\$ 3,357,703</u>

See accompanying notes to financial statements.

Pinnacle Homeowners Association
Statement of Revenues, Expenses, and Changes in Fund Balance
Year Ended December 31, 2023
With Comparative Totals for the Year Ended December 31, 2022

	12/31/2023			12/31/2022
	Operating	Replacement & Restoration	Total	Total
	Fund	Fund		
REVENUE				
Regular assessments	\$ 1,091,170	\$ -	\$ 1,091,170	\$ 1,069,792
Special assessments	-	4,700,081	4,700,081	5,700,080
Gain (loss) on investments	-	85,239	85,239	11,797
Interest income	-	172,582	172,582	11,723
Other fees	3,502	-	3,502	2,836
Total revenue	1,094,672	4,957,902	6,052,574	6,796,228
EXPENSES				
Community enhancement	-	5,997,385	5,997,385	4,624,169
Snow removal	274,305	-	274,305	137,916
Landscaping	199,296	-	199,296	129,822
Repairs and maintenance	166,563	-	166,563	110,585
Insurance	85,273	-	85,273	72,420
Security	84,295	-	84,295	47,886
Cable television	66,527	-	66,527	66,032
Income taxes	58,172	-	58,172	6,085
Property management fee	49,520	-	49,520	48,550
Trash removal	25,526	-	25,526	22,071
Shuttle service	20,210	-	20,210	19,565
Christmas decorations	11,496	-	11,496	10,128
Window cleaning	9,557	-	9,557	8,344
Professional fees	7,950	-	7,950	12,112
Utilities	5,545	-	5,545	5,645
Chimney sweeping	5,533	-	5,533	5,770
Office expenses	5,415	-	5,415	4,289
Legal	4,984	-	4,984	1,030
Pest control	908	-	908	4,287
Bank fees	-	-	-	450
Total expenses	1,081,075	5,997,385	7,078,460	5,337,156
Excess of revenues over expenses	\$ 13,597	\$ (1,039,483)	\$ (1,025,886)	\$ 1,459,072

See accompanying notes to financial statements.

Pinnacle Homeowners Association

Statement of Changes in Fund Balance

Year Ended December 31, 2023

	Fund balance		
	Operating	Replacement & Restoration Fund	Total
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	\$ -	\$ 3,357,703	\$ 3,357,703
Excess of revenues over expenses	13,597	(1,039,483)	(1,025,886)
Fund transfers	<u>(13,597)</u>	<u>13,597</u>	<u>-</u>
Balance, 12/31/2023	<u>\$ -</u>	<u>\$ 2,331,817</u>	<u>\$ 2,331,817</u>

See accompanying notes to financial statements.

Pinnacle Homeowners Association
Statement of Cash Flows
Year Ended December 31, 2023
With Comparative Totals for the Year Ended December 31, 2022

	12/31/2023			12/31/2022
	Replacement & Restoration		Total	Total
	Operating Fund	Fund	Total	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenues over expenses	\$ 13,597	\$ (1,039,483)	\$ (1,025,886)	\$ 1,459,072
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Fund transfers	28,655	(28,655)	-	-
Unrealized gains on investments	-	(85,239)	(85,239)	(11,797)
Changes in current assets and liabilities:				
Assessments receivable, net	(6,260)	-	(6,260)	(6,282)
Other receivables	-	-	-	8,232
Prepaid income taxes	386	-	386	2,294
Accounts payable	24,397	-	24,397	10,076
Assessments received in advance	(6,277)	-	(6,277)	(7,516)
Income taxes payable	55,893	-	55,893	371
	110,391	(1,153,377)	(1,042,986)	1,454,450
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments		792,984	792,984	40,211
Cash purchases of investments	-	(696,086)	(696,086)	-
	-	96,898	96,898	40,211
CASH FLOWS FROM FINANCING ACTIVITIES				
	-	-	-	-
Net change in cash and cash equivalents	110,391	(1,056,479)	(946,088)	1,494,661
Cash and cash equivalents, beginning of year	345,884	3,007,398	3,353,282	1,858,621
Cash and cash equivalents, end of year	\$ 456,275	\$ 1,950,919	\$ 2,407,194	\$ 3,353,282
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest			\$ -	\$ -
Cash paid for income taxes			\$ 2,279	\$ 3,420

See accompanying notes to financial statements.

Pinnacle Homeowners Association

Notes to Financial Statements

December 31, 2023

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 February 27, 2024, 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, 2023, 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, 2023, was \$15,766. The net balance of assessments received in advance was \$0 as of December 31, 2023.

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, 2023. 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, 2023 was comprised of the following:

Federal	\$ 50,289
State	<u>7,883</u>
	<u>\$ 58,172</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, 2023, 2022, 2021, and 2020 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">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means 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, 2023:

	Assets at Fair Value as of December 31, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 61,661	\$ -	\$ -	\$ 61,661
Totals	\$ 61,661	\$ -	\$ -	\$ 61,661

4. MANAGING AGENT

Burnside Property Maintenance Company was retained as the managing agent for 2023. Burnside was paid management fees of \$47.98 per unit, per month, through December 2023. 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 \$2,331,818 at December 31, 2023.

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 2022 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, 2022 is presented for comparative purposes only. The notes presented herein contain information relating to December 31, 2023 only.

SUPPLEMENTARY INFORMATION

Pinnacle Homeowners Association
Repairs, Replacements, and Future Acquisitions (unaudited)
December 31, 2023

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, 2023. 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, 2023, 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	3-25 years	1-16 years	\$ 4,136,600
Landscaping	3 years	1 years	124,700
Lighting	25-35 years	3-9 years	150,500
Gatehouse	14 years	13 years	25,000
Paving	3-25 years	0-16 years	211,950
Plumbing	3 years	1 year	<u>25,800</u>
			<u>\$ 4,674,550</u>

See independent auditor's report.