

SUN VALLEY ELKHORN ASSOCIATION, INC.
FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

SUN VALLEY ELKHORN ASSOCIATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sun Valley Elkhorn Association, Inc.
Sun Valley, Idaho

We have audited the balance sheets of Sun Valley Elkhorn Association, Inc. as of October 31, 2016 and 2015 and the related statements of income and cash flows for years 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 of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun Valley Elkhorn Association, Inc. as of October 31, 2016 and 2015 and the results of operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mahlke Hunsaker & Co.

Mahlke Hunsaker & Company, pllc
December, 2016

SUN VALLEY ELKHORN ASSOCIATION, INC.

**Balance Sheets
October 31, 2016 and 2015**

	<u>2016</u>			<u>2015</u> <u>Totals</u>
	<u>Operating Fund</u>	<u>Capital Reserve</u>	<u>Total</u>	
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 413,663	\$ 853,417	\$ 1,267,080	\$ 1,165,919
Accrued Interest	1,778	13,232	15,010	9,665
Assessments Receivables	160,592	42,690	203,282	131,711
Total Current Assets	576,033	909,339	1,485,372	1,307,295
Fixed Assets:				
Property & Equipment, net of accumulated depreciation	<u>2,572,637</u>	-	<u>2,572,637</u>	<u>2,657,346</u>
Total Assets	<u>\$ 3,148,670</u>	<u>\$ 909,339</u>	<u>\$ 4,058,009</u>	<u>\$ 3,964,641</u>
LIABILITIES AND OWNERS' EQUITY				
Liabilities:				
Accounts Payable	\$ 830	\$ -	\$ 830	\$ 2,954
Accrued Liabilities	112	-	112	572
Income Taxes Payable	30	-	30	30
ADC Completion Deposit	8,000	-	8,000	9,000
Deferred Assessment Revenue	387,669	69,303	456,972	389,234
Total Current Liabilities	396,641	69,303	465,944	401,790
Owners' Equity	<u>2,752,029</u>	<u>840,036</u>	<u>3,592,065</u>	<u>3,562,851</u>
Total Liabilities and Owners' Equity	<u>\$ 3,148,670</u>	<u>\$ 909,339</u>	<u>\$ 4,058,009</u>	<u>\$ 3,964,641</u>

The accompanying notes are a part of these financial statements

SUN VALLEY ELKHORN ASSOCIATION, INC.

**Statements of Income and Changes in Owners' Equity
For the Years Ended October 31, 2016 and 2015**

	<u>2016</u>			<u>2015</u> <u>Totals</u>
	<u>Operating Fund</u>	<u>Capital Reserve</u>	<u>Total</u>	
Revenues:				
Member Assessments	\$ 804,919	\$ 226,300	\$ 1,031,219	\$ 1,094,260
Interest	794	8,992	9,786	12,074
Other Revenue	22,413	6,106	28,519	17,881
Total Revenues	828,126	241,398	1,069,524	1,124,215
Expenses:				
Management	440,288	-	440,288	495,105
Common Area	60,919	2,144	63,063	68,851
Harker Center Pool	73,739	2,751	76,490	65,850
Harker Center Structure	13,261	5,166	18,427	17,168
Village Pool	90,221	467	90,688	100,373
Tennis Program	69,533	575	70,108	66,816
Depreciation	217,832	-	217,832	212,046
Other Expenses	63,414	-	63,414	66,122
Total Expenditures	1,029,207	11,103	1,040,310	1,092,331
Net Income (Loss)	(201,081)	230,295	29,214	31,884
Owners' Equity- Beginning	2,819,988	742,863	3,562,851	3,530,967
Transfer To/From Capital Reserve	133,122	(133,122)	-	-
Owners' Equity -Ending	\$ 2,752,029	\$ 840,036	\$ 3,592,065	\$ 3,562,851

The accompanying notes are a part of these financial statements

SUN VALLEY ELKHORN ASSOCIATION, INC.

**Statements of Cash Flows
For the Years Ended October 31, 2016 and 2015**

	2016			2015 Totals
	Operating Fund	Capital Reserve	Total	
Cash Flows From Operating Activities:				
Receipts from Members	\$ 801,525	\$ 225,861	\$ 1,027,386	\$ 1,067,412
Other Operating Receipts	22,413	6,106	28,519	17,881
Interest Income	351	4,090	4,441	26,901
Payments to Suppliers	(814,960)	(11,103)	(826,063)	(920,124)
Net Cash Provided (Used) by Operating Activities	9,329	224,954	234,283	192,070
Cash Flows From Capital and Related Financing Activities:				
Transfers Between Funds	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	-	-
Cash Flows From Investing Activities				
Purchases of Fixed Assets	-	(133,123)	(133,123)	(204,218)
Net Cash Provided (Used) by Investing Activities	-	(133,123)	(133,123)	(204,218)
Net Increase (Decrease) in Cash	9,329	91,832	101,161	(12,148)
Cash - Beginning of Year	404,334	761,585	1,165,919	1,178,067
Cash - End of Year	<u>\$ 413,663</u>	<u>\$ 853,417</u>	<u>\$ 1,267,080</u>	<u>\$ 1,165,919</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (201,081)	\$ 230,295	\$ 29,214	\$ 31,884
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	217,832	-	217,832	212,046
Changes in Assets and Liabilities				
Receivables	(52,038)	(19,533)	(71,571)	(11,648)
Accrued Interest Receivables	(443)	(4,902)	(5,345)	14,827
Dues Billed in Advance	48,644	19,094	67,738	(15,200)
Accounts and Other Payables	(3,585)	-	(3,585)	(39,839)
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,329</u>	<u>\$ 224,954</u>	<u>\$ 234,283</u>	<u>\$ 192,070</u>

The accompanying notes are a part of these financial statements

SUN VALLEY ELKHORN ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sun Valley Elkhorn Association, Inc. (the Association) was incorporated on June 19, 1972, in the State of Idaho. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 1,630 residential units located on approximately 5,000 acres in Sun Valley, Idaho. The following is a summary of the more significant policies:

(A) Basis of Presentation – Basis of Accounting

Basis of Presentation:

The Association maintains its books using the accrual method of accounting. The Association's governing documents provide certain guidelines for oversight of its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund type accounting.

Fund Financial Statements: Funds of the Association are segregated according to the fund method of accounting. This methodology requires that funds such as operating funds and funds for major repairs and replacements be classified separately for accounting and financial reporting purposes.

The Association reports the following funds:

Operating Fund. This account is funded with regular semi-annual assessments and shall contain funds needed to run the ordinary operations of the Sun Valley Elkhorn Association on a day-to-day basis. The amount to be collected and contained in this fund shall be determined by the Board of Directors through the annual operational budgeting process and shall be collected in the fashion prescribed by the Master Declaration governing Sun Valley Elkhorn Association.

Capital Reserve Fund. The funds are for the purpose of repairing, maintaining or replacing existing capital assets, or for the purchase of capital assets and shall be funded through a regular semi-annual capital assessment. The amount to be collected in this fund shall be determined by the Board of Directors through the annual budgeting process which takes into account the Capital Component Replacement Analysis (Capital Reserve Study) and shall be collected in the fashion prescribed by the Master Declaration governing Sun Valley Elkhorn Association.

Management's 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 dates of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates.

**SUN VALLEY ELKHORN ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

(B) Assets, Liabilities, and Equity

Cash and Cash Equivalents

The Association considers all securities purchased to be cash deposits. The balances of securities are adjusted to the current fair market value. The Association places its temporary cash investments with high credit quality financial institutions. The Funds are kept in banks in regular checking accounts, certificates of deposit, and money market accounts. At times, such investments may exceed the FDIC insurance limits. At October 31, 2016 and 2015 there was no cash or cash equivalents in excess of FDIC insurance limits.

Member Assessments and Receivables

Association members are subject to semi-annual assessments. The semi-annual assessments were \$337 and \$315 for the years ended October 31, 2016 and 2015, respectively. These assessments were allocated as follows:

	Operating Fund	Capital Fund
2016	265.00	72.00
2015	265.00	60.00

The annual budget and assessments of owners are determined by the Board of Directors. During the budgeting process the Association includes a 3% contingency line item for essential unexpected expenses in both the operating and capital funds. Any surplus funds remaining at the end of the audited fiscal year shall be carried forward in the respective funds.

Receivables: Assessments receivable as of the balance sheet date represents fees due from property owners. The Association's policy is to place liens on the properties of homeowners whose assessments are ninety days or more delinquent.

The Association bills its members on a semi-annual basis one month in advance of the semi-annual period. The assessments are payable on the first day of the first month of the semi-annual period. In accordance with this policy, assessments for the months of November through April are billed on October 1, and are payable on November 1. Deferred assessments revenue represents assessments billed in advance of the period in which the assessments are earned by the Association.

Allowance for Doubtful Accounts

The Association's policy is to retain legal counsel and place liens on members whose assessments are in arrears. This policy is strictly enforced after all reasonable efforts to collect have been exhausted. No allowance for doubtful accounts has been established by the Board of Directors. Any outstanding amounts not collectible are expensed in the current period.

Fixed Assets

Fixed assets are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives of the related assets.

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-30 years
Land Improvements	2-25 years
Recreation Facilities	5-40 years
Furniture & Equipment	4-10 years

**SUN VALLEY ELKHORN ASSOCIATION, INC.
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-continued

Normal repairs and maintenance are expensed as incurred whereas significant improvements, which materially increase values or extend useful lives, are capitalized and depreciated over the remaining estimated useful lives of the related assets.

Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation or amortization are removed from the accounts. Any gain or loss on the sale or retirement is recognized in current operations.

The Association does not recognize common real property as an asset on its balance sheet as it is owned commonly among association members and not by the Association itself.

Accrued Interest Receivable

The Association has several certificates of deposits with interest rates varying from 1.27% to 2.25% and original maturities of five years. Interest is accrued annually for these accounts.

Income Taxes

The Association is a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended October 31, 2016 and 2015. 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 the Association's property. Net nonexempt function income, which includes earned interest, may be taxed by the federal government and the State of Idaho.

NOTE 2 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the Association considers all highly liquid investments held by the bank in the form of checking or savings to be cash equivalents.

NOTE 3 FIXED ASSETS

The following summarizes the Association's change in fixed assets during the current period.

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings	\$ 2,772,538	\$ 19,313	\$ -	\$ 2,791,851
Recreational Facilities	2,300,429	23,387	-	2,323,816
Equipment, Furniture & Fixtures	206,336	52,132	-	258,468
Land Improvements	327,085	38,290	-	365,375
Totals	5,606,388	133,122	-	5,739,510
Accumulated Depreciation	(2,949,042)	(217,831)	-	(3,166,873)
Net Book Value	<u>\$ 2,657,346</u>			<u>\$ 2,572,637</u>

SUN VALLEY ELKHORN ASSOCIATION, INC.
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NOTE 3 FIXED ASSETS (continued)

Depreciation expense was \$217,832 and \$212,046 for 2016 and 2015, respectively

NOTE 4 PENSION PLAN

The Association maintains a qualified retirement plan under Section 401(k) of the Internal Revenue Code. This plan allows employees to defer a portion of their income on a pretax basis through contributions to the plan. The Association makes a contribution of 6% for eligible employees. Pension Plan expenses were \$9,909 and \$14,207 for the years ended October 31, 2016 and 2015, respectively. The expenses have been included with the various expenses in which the employees are involved on the statements of Income and changes in Owners' Equity.

NOTE 5 SUBSEQUENT EVENTS

Subsequent events were evaluated as of December 16, 2016 and no additional items were noted and necessary to be disclosed.