

DAYBREAK COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITORS' REPORT

YEAR ENDED DECEMBER 31, 2015

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PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Daybreak Community Association, Inc.
South Jordan, Utah

We have audited the accompanying financial statements of Daybreak Community Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Daybreak Community Association, Inc. as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on page 14 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.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
June 17, 2016

DAYBREAK COMMUNITY ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Repair and Replacement Reserve Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,110,630	\$ 799,105	\$ 1,909,735
Assessments receivable, net	77,515	-	77,515
Other receivables	10,561	-	10,561
Accounts receivable - related party	53,291	-	53,291
Prepaid expenses	<u>29,740</u>	<u>-</u>	<u>29,740</u>
 TOTAL CURRENT ASSETS	 <u>1,281,737</u>	 <u>799,105</u>	 <u>2,080,842</u>
 PROPERTY AND EQUIPMENT, NET	 <u>157,312</u>	 <u>-</u>	 <u>157,312</u>
 TOTAL ASSETS	 <u>\$ 1,439,049</u>	 <u>\$ 799,105</u>	 <u>\$ 2,238,154</u>
LIABILITIES AND FUND BALANCES			
CURRENT LIABILITIES:			
Accounts payable	\$ 73,555	\$ -	\$ 73,555
Accounts payable - related party	25,577	-	25,577
Accrued expenses	203,656	-	203,656
Assessments received in advance	<u>643,778</u>	<u>-</u>	<u>643,778</u>
 TOTAL CURRENT LIABILITIES	 <u>946,566</u>	 <u>-</u>	 <u>946,566</u>
 FUND BALANCES	 <u>492,483</u>	 <u>799,105</u>	 <u>1,291,588</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 1,439,049</u>	 <u>\$ 799,105</u>	 <u>\$ 2,238,154</u>

DAYBREAK COMMUNITY ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Repair and Replacement Reserve Fund</u>	<u>Total</u>
REVENUES:			
Homeowner assessments	\$ 3,783,555	\$ -	\$ 3,783,555
Telecommunity assessments	1,402,341	-	1,402,341
Contribution from Daybreak Community Council, Inc.	202,512	-	202,512
Community Center	113,532	-	113,532
Storage rent	56,904	-	56,904
Working capital	53,400	-	53,400
Other revenues	<u>135,231</u>	<u>4,198</u>	<u>139,429</u>
 TOTAL REVENUES	 <u>5,747,475</u>	 <u>4,198</u>	 <u>5,751,673</u>
 EXPENSES:			
Contract services	2,474,128	-	2,474,128
Community center	845,806	-	845,806
Salaries and benefits	655,477	-	655,477
Administrative	219,792	-	219,792
Utilities	353,893	-	353,893
Eastlake Pool	153,398	-	153,398
Brookside Pool	12,145	-	12,145
Bad debts	11,329	-	11,329
Maintenance	242,856	94,320	337,176
Insurance	78,884	-	78,884
Oquirrh Lake boat facility	91,761	-	91,761
Splash pool	23,067	-	23,067
Parts and supplies	28,116	-	28,116
Taxes	510	-	510
Miscellaneous	<u>23,737</u>	<u>-</u>	<u>23,737</u>
 TOTAL EXPENSES	 <u>5,214,899</u>	 <u>94,320</u>	 <u>5,309,219</u>
 NET CHANGE IN FUND BALANCES	 532,576	 (90,122)	 442,454
 FUND BALANCES - BEGINNING OF YEAR	 234,432	 614,702	 849,134
 INTERFUND TRANSFERS, NET	 <u>(274,525)</u>	 <u>274,525</u>	 <u>-</u>
 FUND BALANCES - END OF YEAR	 <u>\$ 492,483</u>	 <u>\$ 799,105</u>	 <u>\$ 1,291,588</u>

See Accompanying Notes to Financial Statements.

DAYBREAK COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2015

	<u>Operating Fund</u>	<u>Repair and Replacement Reserve Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net change in fund balances	\$ 532,576	\$ (90,122)	\$ 442,454
Adjustments to reconcile net change in fund balances to net cash provided by operating activities:			
Interfund transfers	(274,525)	274,525	-
Depreciation	14,523	-	14,523
(Increase) decrease in:			
Assessments receivable, net	(6,359)	-	(6,359)
Interfund balances	3,000	(3,000)	-
Other receivables	(5,141)	-	(5,141)
Accounts receivable - related party	(4,973)	-	(4,973)
Prepaid expenses	(1,681)	-	(1,681)
Increase (decrease) in:			
Accounts payable	63,805	-	63,805
Accounts payable - related party	6,640	-	6,640
Accrued expenses	17,753	-	17,753
Assessments received in advance	81,370	-	81,370
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>426,988</u>	<u>181,403</u>	<u>608,391</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(86,489)	-	(86,489)
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(86,489)</u>	<u>-</u>	<u>(86,489)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	340,499	181,403	521,902
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>770,131</u>	<u>617,702</u>	<u>1,387,833</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,110,630</u>	<u>\$ 799,105</u>	<u>\$ 1,909,735</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements.

DAYBREAK COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

1. NATURE OF ORGANIZATION

Daybreak Community Association, Inc. (the Association) was incorporated in April 2004 for the purpose of operating and managing the recreational and common areas of Daybreak Community, which consist of 4,044 deeded properties in South Jordan, Utah. The Association is owned by its members. Members consist of the homeowners of record of each deeded property unit and are entitled to one vote for each deed in Association matters.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Repair and Replacement Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

Cash includes cash, and at times, cash equivalents, which consist of highly liquid financial instruments purchased with an original maturity of three months or less. Deposits at each institution are insured in limited amount by the Federal Deposit Insurance Corporation (FDIC). Periodically, the Association maintains cash with financial institutions in excess of the amounts insured by the FDIC.

Assessments Receivable

Association members (homeowners) are subject to quarterly assessments determined by the Board of Directors. Association member assessments are to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at December 31, 2015 represents fees due from property owners. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for uncollectible receivables based on its assessment of the current status of individual receivables. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance account and a credit to assessments receivable. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 90 days or more delinquent. At December 31, 2015, assessments receivable are reported net of an allowance of \$89,300. Any excess assessments at year-end are retained by the Association for future years.

The Association has receivables which are subject to a significant concentration of credit risk. The receivables are all due from the Association's members within a relatively small geographic area. The Association has provisions to assess late fees and lien the real property. If these provisions fail, the Association could incur a loss equal to the amount of the receivables.

DAYBREAK COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Related Depreciation

Purchased property and equipment is recorded at cost. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$5,000 are capitalized. When property and equipment is sold, or otherwise disposed of, the asset and related accumulated depreciation account is relieved and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Land improvements	20 years
Vehicles	7 years
Machinery and equipment	10 years
Computer equipment	5 years

Common Property

Common property consists of parks, walkways, common areas, drives and other amenities within the Association which have been contributed by the developer. These common areas are not reflected in the accompanying financial statements as these assets are not readily marketable and have been assigned no value. The common property cannot be disposed of without proper approval of the members as described in the Declaration of Covenants, Conditions and Restrictions of the Association. Although the common property is not reflected on the financial statements, the Association is responsible for preservation and maintenance.

Revenue Recognition

Association members are subject to assessments to provide funds for the Association's operating expenses and future repairs and replacements. Assessments are earned in the period that is specified by the Association documents. Assessments received in advance are assessments that have been collected by the Association for future periods.

Community Center Income

The Community Center is a full-service recreation center with fitness equipment available to all residents of the Daybreak Community. The Community Center charges a fee for usage of various services provided. Fees for room rental, classes, personal training, guest and childcare are recorded as the events take place or the services are rendered.

Contribution from Daybreak Community Council, Inc.

The Association received a discretionary contribution from the Daybreak Community Council, Inc. (a related party) to help subsidize the expenses of the Association. Revenues are recognized when received. Balances still owing from the Daybreak Community Council, Inc. as of December 31, 2015 are reported in the balance sheet as accounts receivable - related party.

DAYBREAK COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Association files its Federal Income Tax Return on Form 1120-H. *U.S. Income Tax Return for Homeowners Associations*, in accordance with Section 528 of the Internal Revenue Code. Under this section, the Association is not taxed on uniform assessments to members and other income received from the Association members solely as a function of their membership in the Association. The Association is taxed at a federal rate of 30% on its nonexempt income. Utah state income tax is based on the federal income and is taxed at 5%.

The Association evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings and discussion with outside experts.

Penalties on late or non-filing of tax returns are classified in the financial statements as operating expenses. No tax-related penalties were included during the 2015 tax year.

The Association is no longer subject to Federal or state income tax examinations for years before 2012.

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, liabilities and disclosures and the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 consisted of:

Land improvements	\$ 30,733
Vehicles	27,299
Machinery and equipment	78,727
Furniture and fixtures	89,213
Computer equipment	<u>3,102</u>
Total	229,074
Less: accumulated depreciation	<u>(71,762)</u>
Net property and equipment	<u>\$ 157,312</u>

Depreciation expense for the year ended December 31, 2015 was \$14,253.

4. ACCOUNTS PAYABLE - RELATED PARTY

The accounts payable - related party represent member assessments collected by the Association on behalf of the other sub-associations in the Daybreak development that have not been remitted to the various associations as of December 31, 2015.

DAYBREAK COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LEASE COMMITMENTS

The Association has lease commitments under operating lease agreements for copier and phone equipment. The current agreements expire in October and November 2017, respectively. The Association is responsible for certain monthly operating and maintenance expenses. Minimum future rental payments under these noncancelable operating leases are:

<u>Years ending December 31,</u>	
2016	\$ 8,605
2017	<u>7,663</u>
	<u>\$ 16,268</u>

Rental expense associated with these leases was \$9,892 for 2015.

6. FUTURE MAJOR REPAIRS AND REPLACEMENT COSTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The funding program for future major repairs and replacements is based on a study authorized by management and approved by the Board of Directors to estimate the remaining useful lives and the replacement costs of common property components.

The Association's intent is to fund major repairs and replacements over the estimated useful lives of the components based on the study's estimates of expected future replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed; however, the Association has the right to increase regular assessments or levy special assessments or it may delay major repairs and replacements until funds are available.

7. MANAGEMENT SERVICES AGREEMENT

The Board of Directors has engaged Capital Consultants Management Corporation (CCMC) as the managing agent for the Association. As the managing agent CCMC is responsible for the general operations, fiscal and accounting services, risk and claim management and administrative work as outlined in the management contract. In return for these services, CCMC is paid monthly management fees, payroll administrative fees and collection fees. During the year ended December 31, 2015, the Association paid CCMC \$1,345,264 for services under the agreement. At December 31, 2015, \$14,575 was due to CCMC and is included in accrued expenses in the accompanying balance sheet.

DAYBREAK COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through June 17, 2016, which is the date the financial statements were available to be issued.

Subsequent to December 31, 2015, the Association purchased the community center from the developer and entered into a loan with a financial institution for \$4,700,000. Scheduled payments of approximately \$29,412 per month began February 20, 2016 and go through January 20, 2026.

Subsequent to December 31, 2015, the Association entered into a lease agreement for office space. The lease is for a term of seven years with an option to renew for an additional five years. Base monthly lease amounts are \$4,000 for the first year and escalate to \$4,927 in the final year of the lease term. The Association is also responsible for all costs and obligations relating to the premises and common area maintenance charges throughout the term of the lease.

SUPPLEMENTARY INFORMATION

DAYBREAK COMMUNITY ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)**

DECEMBER 31, 2015

An independent consultant conducted a study in June 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from an inspection of the property and consultation with vendors and/or contractors that had worked on the property in the recent past. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and represents significant information about the components of property and improvements.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Repair and Replacement Reserve Fund Balance at December, 31, 2015</u>
Furniture	1 to 19	\$ 147,500	\$ -
Equipment	0 to 19	590,000	-
Vehicles	0	21,000	-
Recreational areas	0 to 27	2,796,475	-
Landscaping	0 to 12	74,000	-
Pavement	0 to 16	258,631	-
Fencing and gates	0 to 20	275,320	-
Unallocated funds		-	799,105
		<u>\$ 4,162,926</u>	<u>\$ 799,105</u>