

TIMBER COVE HOMES ASSOCIATION

FINANCIAL STATEMENTS

Year Ended April 30, 2017

(With Comparative Totals for April 30, 2016)

KAPALAHIKE ACCOUNTING SERVICES

Sheri Flying Hawk

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Kapalahike

Ka=Sun

Pa=Earth

Lah=moving

to create

Ike=rainbow

Earth Calendar: Year 26, Month 1 Day 2

March 18, 2018

*The Board of Directors and Members
Timber Cove Homes Association - TCHA*

I have reviewed the accompanying balance sheets of Timber Cove Homes Association - TCHA (incorporated), as of April 30, 2017 and 2016, (with comparative totals only), and the related statements of revenues, expenses and change in fund balances and cash flows for the years then ended. All information included in these financial statements is the representation of the management of the Timber Cove Homes Association.

A financial review consists of inquiries of association management and analytical procedures applied to management's financial data. A financial review is substantially less in scope than an audit in accordance with generally accepted auditing standards with the objective being the expression of an opinion regarding the financial statements taken as a whole. Accordingly, no opinion is expressed.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United State of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Kapalahike Accounting Services - KAS responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require performing procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. I believe that the results of my procedures provide a reasonable basis for this report.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and I did not become aware of any material modifications that should be made.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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. I have not audited, reviewed, or compiled the required supplementary information, and, accordingly, do not assume any responsibility for it.

Mahalo nui loa for the opportunity to work with the Timber Cove Homes Association.



Sheri Flying Hawk
Kapalahike Accounting Services
Independent Public Accountant

***TIMBER COVE HOMES ASSOCIATION
FINANCIAL STATEMENTS
Year Ended April 30, 2017
(With Comparative Totals for April 30, 2016)***

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KAPALAHIKE ACCOUNTING SERVICES

Public Accounting and Tax Consultation

TIMBER COVE HOMES ASSOCIATION
Balance Sheet
April 30, -17
(With Comparative Totals for April 30, 2016)

	4/30/2017			4/30/2016
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
ASSETS				
Cash & Cash Equivalents	122,066	94,095	216,161	292,270
Assessment Receivable	116,695		116,695	74,498
Less: Allowance Doubtful Accounts	(10,000)		(10,000)	(10,000)
Property & Equipment (Net)	13,248		13,248	14,524
TOTAL ASSETS	242,009	94,095	336,104	371,292
LIABILITIES				
Accounts Payable	(2,500)		(2,500)	7,846
Dues Paid in Advance	0		0	0
Performance Bonds	55,000		55,000	70,000
Income Tax Payable	380		380	380
Other Current Liabilities	14,324		14,324	2,178
TOTAL LIABILITIES	67,204	0	67,204	80,404
FUND BALANCE	174,805	94,095	268,900	290,888
TOTAL LIABILITIES & FUND BALANCES	242,009	94,095	336,104	371,292

See Accompanying Notes and Independent Accountant's Review Report

TIMBER COVE HOMES ASSOCIATION
Statement of Revenues, Expenses
and Changes in Fund Balances
For the Year Ended April 30, 2017
(With Comparative Totals for April 30, 2016)

	4/30/2017			4/30/2016
	OPERATING FUNDS	REPLACEMENT FUNDS	TOTAL	TOTAL
REVENUES				
Member Assessments	119,960	(19,989)	99,971	97,350
Architectural Fees Income	2,000		2,000	5,000
Performance Bond	0		0	5,000
Miscellaneous Income	1,121		1,121	1,070
Interest Income	390	372	762	845
TOTAL REVENUE	123,471	(19,617)	103,854	109,265
EXPENSES				
Administrative Expenses	39,731		39,731	31,369
Operating Expenses	101,110		101,110	44,951
TOTAL EXPENSES	140,841		140,841	76,320
Excess (Deficit) of Revenues Over Expenses	(17,370)	(19,617)	(36,987)	32,945
FUND BALANCES, Beginning	136,096	113,711	250,249	217,304
FUND BALANCE, Ending	118,726	94,094	213,262	250,249

See Accompanying Notes and Independent Accountant's Review Report

TIMBER COVE HOMES ASSOCIATION
Statement of Comparative Cash Flows
For Year Ended April 30, -17
(With Comparative Totals for April 30, 2016)

	<u>4/30/2017</u>			<u>4/30/2016</u>
	<u>OPERATING FUNDS</u>	<u>REPLACEMENT FUNDS</u>	<u>TOTAL</u>	<u>TOTAL</u>
Cash Flows from Operating Activities				
Excess (Deficit) of Revenue Over Expenses	(17,370)	(19,617)	(36,987)	32,945
Adjustments to Reconcile Excess of Revenue Over Expenses to Net Cash provided by Operating Activities:				
Depreciation	1,863		1,863	1,511
(Increases) Decreases In:				
Dues Receivable	(37,490)		(37,490)	11,864
Other Member Receivable	0		0	0
Trail Survey	(588)		(588)	(7,031)
TCHA Office	0		0	88,396
TCHA Office Land	0		0	20,000
Accum Deprec-Office Bldg	0		0	(34,711)
Increase (Decrease) in:				
Accounts Payable	(10,345)		(10,345)	7,845
Other Current Liabilities	12,146		12,146	(1,874)
Income Tax Payable	0		0	0
Retained Earnings TCHA-Land	0		0	0
Retained Earnings TCHA	0		0	(72,742)
Ret Earn TCHA Equity Refnd-Unit1	0		0	(38,275)
Net Cash provided by (used by) Operating Activities	<u>(51,784)</u>	<u>(19,617)</u>	<u>(71,401)</u>	<u>7,928</u>
Net Increase (Decrease) in Cash	<u>(51,784)</u>	<u>(19,617)</u>	<u>(71,401)</u>	<u>7,928</u>
Cash & Cash Equivalents, Beginning of Year	<u>192,332</u>	<u>113,711</u>	<u>306,043</u>	<u>298,115</u>
Cash & Cash Equivalents, End of Year	<u><u>140,548</u></u>	<u><u>94,094</u></u>	<u><u>234,642</u></u>	<u><u>306,043</u></u>
Supplemental Disclosure:				
Cash Paid This Year				
Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

See Accompanying Notes and Independent Accountant's Review Report

Timber Cove Homes Association
Notes to Financial Statements
For the Years Ended April 30, 2017 and 2016

Note 1. Principal Activities

The Timber Cove Homes Association has been organized pursuant to the General Non-Profit Corporation Law for the operation and maintenance of the common areas of the 214 residential unit development located in Jenner, CA. The Homeowner's Association has the power to fix, levy, collect and enforce payment of Association dues that it considers necessary to effectively conduct the business of the Association. The Association was incorporated on December 4, 1964.

The Association derives its authority and responsibilities from the Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations, but major decisions can be referred to the general Association membership.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners, who are entitled to one vote for each unit owned. Each owner is obligated to pay annual assessments to the Association in support its operations and purposes.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting / Year End

The financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles. Dues and other revenue sources are recognized when earned and expenses are recognized when the related liability is incurred. The Association has adopted the fiscal accounting period ending April 30.

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 standards. 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 operation of the Association.

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

Performance Bond Fund – This fund is used to hold the completion of work performance bond deposited by the property owner within TCHA to insure timely completion of permitted building construction or improvements.

Summarized Financial Information

The financial statements include certain prior year summarized comparatives information in total but not by individual fund basis. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles (GAAP) in the United States of America. Accordingly, such information should be read in conjunction with the Association's prior year financial statements location where the summarized information was derived.

Member Assessment

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees from unit owners. Any excess assessments at year end are retained by the Association for use in future years.

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposit of each fund.

Common Property

In accordance with prevalent industry standards, real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common.

Cash & Cash Equivalents

Cash & Cash Equivalents include checking accounts, savings accounts and other types of demand deposits the Association can withdraw from without prior notice or penalty, providing that their original maturity is three months or less.

Use of 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 disclosures of contingent

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

Income Taxes

The Association is classified as a nonexempt membership organization for federal income tax purposes for the years ended April 30, 2016 and April 30, 2017. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, nonmembership transactions, and capital transactions.

For federal income tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from non-membership activities where a profit motive exists. Non-membership income may not be offset by membership losses; however, any excess membership deductions may only be carried forward to offset membership income of future tax periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association, however, has elected to file from 1120-H under code section 528 tax rate of 30%.

For state income tax purposes, the Association is an exempt organization. The Association also is taxed on all net income from non-membership activities reduced only by losses from non-membership activities where profit motives exist. Non-membership income may not be offset by membership losses. Any net membership income is not subject to taxation. The California state income tax rate that is applied to net taxable income is 8.84%

Generally accepted accounting principles (GAAP) require that the Association must recognize the tax benefit associated with a tax position taken for tax return purposes when it is more likely than not that the position will be sustained. The Association does not believe there are any material uncertain tax positions and accordingly, they have not recognized any liability for unrecognized tax benefits.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the taxes are filed. Therefore, the Association federal and state income tax returns for April 30, 2016, 2015, 2014, and 2013 (California only) remain open to examination. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

Note 3 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The Association has \$94,094 in funds specifically set aside for funding future reserve replacements and funds reserve expenses via special assessments or through their operating budget on an as needed basis. The

Association does prepare an in-house reserve study for planning purposes. Estimates in the reserve study may vary and the variations may be material.

The Association's primary common assets are roads. Hence, paving costs represent a large expenditure when replacement is necessary. The Association's current policy is to fund for the following years expenditures as provided in the budget.

Note 4 - Subsequent Events

The Association has evaluated subsequent events through March 19, 2018, the date the financial statements were available to be issued, and determined the events occurring subsequent to April 30, 2017 that would have a material impact on the Association's results of operations or financial position are disclosed as follows:

1. The Office Manager/Bookkeeper position was filled in June 2017. The reconstruction of missing and/or lost physical records has proceeded with the completion of the Payroll, Payroll taxes, Accounts Payable and Accounts Receivable accounts reconciled to supporting original documentation and bank records. Remaining accounts to reconcile include the performance bonds, escrow demands and contracts.
2. The Board of Directors voted on January 20, 2018 to transfer \$45,000 from the Reserve Fund in order to pay operational expenses. Legal fees exceeding budget resulted in operations loss at fiscal year ending April 30, 2017 of \$36,987. A special assessment will repay the Reserve Fund within 12 months or January 20, 2019.

Note 5 - Allowance for doubtful accounts

Assessments Receivable are stated at the amount management expects to collect from the outstanding balances less an allowance for uncollectible accounts. Management uses the allowance method to account for uncollectible dues receivable balances. An allowance is established based upon factors such as historical experience, credit quality of the individual owners, the age and amount of the balances as well as if owners are in foreclosure.

Management evaluates the allowances amount annually. The amount considered uncollectible at year ended April 30, 2017 is \$10,000 compared with year ended April 30, 2016 at \$10,000 and year ended April 30, 2015 at \$15,000.

Note 6 - Property and Equipment

A summary of property and equipment as of April 30, 2017 and comparative year April 30, 2016

TIMBER COVE HOMES ASSOCIATION
Statement of Comparative Property and Equipment
For the Years Ended April 30, 2017 and 2016

	<u>4/30/2017</u>	<u>4/30/2016</u>
Property and Equipment		
Roads & Improvements	253,841	253,841
Gate Columns	6,805	6,805
Trail Survey	7,619	7,031
Office Equipment	4,190	4,190
TCHA Office*	*	*
TCHA Office Land*	*	0
Other Assets	2,322	2,322
Property and Equipment Subtotal	274,777	274,189
Less: Accumulation Depreciation	-264,008	-262,145
Net Property and Equipment Subtotal	10,769	12,044
Land	2,479	2,479
NET FIXED ASSETS	13,248	14,523

*TCHA Office \$88,396 and Land \$20,000 were gifted by Quitclaim Deed to Timber Cove County Water District without vote of membership on August 10, 2015.

Ka La
Y26m1d2

Supplementary Information

TIMBER COVE HOMES ASSOCIATION
Schedule of Expenses
For Year Ended April 30, -17
(With Comparative Totals for April 30, 2016)

	4/30/2017		4/30/2016
	OPERATING FUND	REPLACEMENT FUND	TOTAL
Administrative Expenses			
Administrative/Bookkeeping	20,288		20,288
Architectural Review Costs	1,844		1,844
Reserve Study	0		0
Accounting/Legal	8,553		8,553
Office Supplies/Utilities	8,584		8,584
State Income Tax	0		0
Federal Income Tax	0		0
Miscellaneous Expenses	462		462
Total Administrative Expenses	39,731	0	39,731
Operating Expenses			
Depreciation	1,863		1,863
Wages: Security & Grounds	16,740		16,740
Security: Other Costs & Mileage	2,367		2,367
Payroll Taxes & Expenses	20,060		20,060
Road Maintenance	42,464		42,464
Property Taxes	0		0
Forest Management	4,159		4,159
Insurance	8,457		8,457
Performance Bonds	5,000		5,000
Total Operating Expenses	101,110	0	101,110
Grand Total	140,841	0	140,841

The notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
AMENDED PROPOSED TEN YEAR CAPITAL IMPROVEMENT PLAN FOR TCHA ROADS

ROAD	YEAR	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
ANSEL CT								1800		1500	
CUNDAL			2500				1500			1500	
DAVIS						1500	1500		1500		
FROST					2500			1500		1500	
GORDON CT				0			1500				1500
HARRIETTE				0				1500			1500
HUDSON			1500			1500		1500			1500
KOFTINOW		5000					2500			2500	
LEE DR					5000	5000	5000	5000	5000	5000	
LYONS				0			1500		1500		
NINIVE		1200				4000		4000		4000	
RUOFF DR						2,000		2,000		10,000	3,000
RUST		15000				1500			1500		1500
SIGNIAGO			1500			1500		1500			2500
SMITH CT			0		2500			1500			1500
TROBRIDGE						1500			1500		
UMLAND			1500				1500				2500
STREET SWEEP					5000	5000	5000	5000	5000	5000	5000
		21200	7000	0	15000	23500	20000	25300	16000	31000	20500
											179500

NOTE: MAINTENANCE WILL TAKE THE PLACE OF SECURITY WITH A BUDGET OF \$20,000/YEAR

STREET SWEEPING BEGINS IN 2018 AT AN ANNUAL COST OF \$5000 FOR ALL ROADS

THIS FUNCTION WILL INCLUDE ALL DITCHING AND PLACING OF RIP RAP TO RECTIFY DITCHES DUG TOO DEEP.

Amended 3-8-18*
Ten year Capital Improvement Plan
for Timber Cove Homes Association roads
2015 – 2024

Ansel Court

- In good condition
- Refresh chip seal in four to five years.

Cundall

- Chip seal every three to five years.

Davis Way

- Road in fairly good condition. Chip seal every three to five years

Frost

- Chip seal every three to five years as per schedule.

Gordon Court

- In good condition
- Refresh chip seal every four to five years.

**3/8/18, 1-2 PM – All roads inspected by John Gray and Ron Case.*

Harriett

- **Chip seal every three to five years.**

Hudson

- **Chip seal every three to five years.**

Koftinow

- **Minor pot holes.**
- **Chip seal every three to five years.**

Lee Drive

- **In poor condition**
- **Worst pot holes, needs priority attention.**
- **Repair pot holes on South Side of hill.**
- **Cut back roads.**
- **Chip seal every three to five years.**

Lyons Ct.

- **Chip seal every three to five years.**

Ninive

- Survey existing easement.
- Move road into easement.
- Chip seal every three to five years.
- Grass is overgrowing road - clean East Side of road.

Ruoff Road

- Good condition; Chip seal every three to five years.

Rust Road

- In poor condition
- Increase width to 16' of drivable road.
- Chip seal new base.
- Coordinate with TCWD to cut in new blow off line at turnaround before construction.

Signiago

- Chip seal every three to five years.
- Repair potholes.

Smith Court

- In poor condition – needs sealing ASAP.
- Widen turnaround for emergency vehicles.
- Chip seal every three to five years.

Trobridge Court

- Have County fill in pot holes in their easement.
- Chip seal every three to five years.

Umland Circle

- Chip seal every three to five years.

All other roads are in the same condition and will require chip sealing and eventual paving.

As repairs are made the roads should eventually all be 16' wide.

- All property owners are responsible for maintaining their vegetation in the road easement.