



**Larry D. Johnson**  
Certified Public Accountant

**TIMBER COVE HOMES ASSOCIATION  
Financial Statements  
Year Ended April 30, 2014  
(With Comparative Totals for April 30, 2013)**



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**For the Years Ended April 30, 2014 and 2013**

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**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

Board of Directors and Members  
Timber Cove Homes Association

I have reviewed the accompanying balance sheets of Timber Cove Homes Association (incorporated), as of April 30, 2014 and 2013, (with comparative totals only), and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I do not express such an opinion.

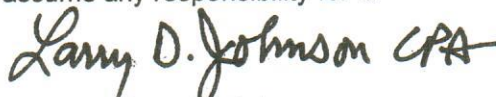
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation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

My 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 me to perform 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 my 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.

My review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the 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 to it.

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 10 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, I do not assume any responsibility for it.

A handwritten signature in black ink that reads "Larry D. Johnson CPA".

Larry D. Johnson  
Certified Public Accountant

June 11, 2014  
Santa Rosa, CA



**TIMBER COVE HOMES ASSOCIATION**  
**Balance Sheet**  
**April 30, 2014**  
**(With Comparative Totals for April 30, 2013)**

	<u>4/30/2014</u>			<u>4/30/2013</u>
	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash & Cash Equivalents	\$ 189,220	\$ 149,284	\$ 338,504	\$ 326,864
Assessments Receivable	34,434	-	34,434	26,300
Other Member Receivables	7,806	-	7,806	-
Allowance For Bad Debts	(15,000)	-	(15,000)	(16,000)
Prepaid Taxes	-	-	-	62
Property & Equipment (Net)	68,239	-	68,239	75,055
<b>TOTAL ASSETS</b>	<u>\$ 284,699</u>	<u>\$ 149,284</u>	<u>\$ 433,983</u>	<u>\$ 412,281</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 176	\$ -	\$ 176	\$ 268
Dues Paid in Advance	120,770	-	120,770	120,770
Performance Bonds	78,000	-	78,000	70,000
Income Tax Payable	45	-	45	-
Other Current Liabilities	773	-	773	1,080
<b>TOTAL LIABILITIES</b>	199,764	-	199,764	192,118
<b>FUND BALANCE</b>	<u>84,935</u>	<u>149,284</u>	<u>234,219</u>	<u>220,163</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u>\$ 284,699</u>	<u>\$ 149,284</u>	<u>\$ 433,983</u>	<u>\$ 412,281</u>

See Accompanying Notes and Accountant's Report





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**TIMBER COVE HOMES ASSOCIATION**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Balances**  
**For The Year Ended April 30, 2014**  
**(With Comparative Totals for April 30, 2013)**

	4/30/2014			4/30/2013
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
<b>REVENUES</b>				
Member Assessments	\$ 75,270	\$ 45,500	\$ 120,770	\$ 120,770
Architectural Fees Income	1,193	-	1,193	500
Miscellaneous Income	7,921	-	7,921	2,812
Loss on Junked Assets	(227)	-	(227)	-
Interest Income	385	229	614	526
<b>TOTAL REVENUE</b>	<b>84,542</b>	<b>45,729</b>	<b>130,271</b>	<b>124,608</b>
<b>EXPENSES</b>				
Administrative Expenses	42,271	-	42,271	47,379
Operating Expenses	73,944	-	73,944	72,876
<b>TOTAL EXPENSES</b>	<b>116,215</b>	<b>-</b>	<b>116,215</b>	<b>120,255</b>
Excess (Deficit) of Revenues Over Expenses	(31,673)	45,729	14,056	4,353
<b>FUND BALANCE, Beginning</b>	<b>116,608</b>	<b>103,555</b>	<b>220,163</b>	<b>215,810</b>
<b>FUND BALANCE, Ending</b>	<b>\$ 84,935</b>	<b>\$ 149,284</b>	<b>\$ 234,219</b>	<b>\$ 220,163</b>

See Accompanying Notes and Accountant's Report



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**TIMBER COVE HOMES ASSOCIATION**  
**Statement of Cash Flows**  
**For The Year Ended April 30, 2014**  
**(With Comparative Totals for April 30, 2013)**

	<u>4/30/2014</u>			<u>4/30/2013</u>
	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>	<u>TOTAL</u>
<b>Cash Flows From</b>				
<b>Operating Activities</b>				
Excess (Deficit) of Revenues				
Over Expenses	\$ (31,673)	\$ 45,729	\$ 14,056	\$ 4,353
Adjustments to Reconcile Excess				
of Revenues Over Expenses to				
Net Cash Provided By Operating				
Activities:				
Depreciation	6,589	-	6,589	8,991
<b>(Increases) Decreases In:</b>				
Dues Receivable	(8,134)	-	(8,134)	10,513
Other Member Receivables	(7,806)	-	(7,806)	-
Allowance For Bad Debts	(1,000)	-	(1,000)	6,000
Prepaid Taxes	62	-	62	539
Property & Equipment	227	-	227	-
<b>Increases (Decreases) In:</b>				
Accounts Payable	(92)	-	(92)	(2,587)
Other Current Liabilities	(307)	-	(307)	(129)
Income Tax Payable	45	-	45	-
Performance Bonds	8,000	-	8,000	(3,000)
<b>Net Cash Provided By</b>				
<b>(Used By) Operating Activities</b>	<u>(34,089)</u>	<u>45,729</u>	<u>11,640</u>	<u>24,680</u>
Net Increase (Decrease) in Cash	<u>(34,089)</u>	<u>45,729</u>	<u>11,640</u>	<u>24,680</u>
<b>Cash &amp; Cash Equivalents,</b>				
<b>Beginning of Year</b>	<u>223,309</u>	<u>103,555</u>	<u>326,864</u>	<u>302,184</u>
<b>Cash &amp; Cash Equivalents,</b>				
<b>End of Year</b>	<u>\$ 189,220</u>	<u>\$ 149,284</u>	<u>\$ 338,504</u>	<u>\$ 326,864</u>
<b>Supplemental Disclosure:</b>				
Cash Paid This Year				
Income Taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes and Accountant's Report



**TIMBER COVE HOMES ASSOCIATION**  
**Notes to Financial Statements**  
**For the Years Ended April 30, 2014 and 2013**

**NOTE 1 - PRINCIPAL ACTIVITY**

The Association has been organized pursuant to the General Non-Profit Corporation Law for the operation and maintenance of the common areas of the 263 residential unit development located in San Rafael, CA. The Homeowners 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 its 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 to support its operations and purposes.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) 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 an accounting period which ends on April 30.

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

**c) SUMMARIZED FINANCIAL INFORMATION**

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





**TIMBER COVE HOMES ASSOCIATION**  
**Notes to Financial Statements**  
**For the Years Ended April 30, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d) MEMBER ASSESSMENTS**

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 due from unit owners. Any excess assessments at year end are retained by the Association for use in future years.

**e) INTEREST INCOME**

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

**f) 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.

**g) CASH & CASH EQUIVALENTS**

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

**h) 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 disclosure 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.

**i) INCOME TAXES**

The Association is classified as a nonexempt membership organization for federal income tax purposes for the years ended April 30, 2014 and April 30, 2013. 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 tax purposes, the Association is taxed on all net income from nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership 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





**TIMBER COVE HOMES ASSOCIATION**  
**Notes to Financial Statements**  
**For the Years Ended April 30, 2014 and 2013**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

periods. Any net membership income not applied to the subsequent tax year is subject to taxation. The Association, however, has elected to file Form 1120H under Code Section 528 which uses a 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 nonmembership activities reduced only by losses from nonmembership activities for which a profit motive exists. Nonmembership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 8.84%.

Generally accepted accounting principles 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 returns are filed. Therefore, the Association's federal and state income tax returns for April 30, 2013, 2012, 2011, and 2010 (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 \$149,284 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 June 11, 2014, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to April 30, 2014 that would have a material impact on the Association's results of operations or financial position.



**TIMBER COVE HOMES ASSOCIATION**  
**Notes to Financial Statements**  
**For the Years Ended April 30, 2014 and 2013**

**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 allowance amount annually and has estimated the amounts considered uncollectible at \$15,000 and \$16,000 for the years ended April 30, 2014 and, 2013, respectively.

**NOTE 6 – PROPERTY AND EQUIPMENT**

A summary of property and equipment as of April 30, 2014 and 2013 is as follows:

	<u>4/30/2014</u>	<u>4/30/2013</u>
Roads	\$ 253,841	\$ 253,841
Gate Columns	6,805	6,805
Office Equipment	88,396	4,160
Other Assets/Office	450	90,719
Subtotal	349,492	355,525
Less: Accumulation Depreciation	(283,732)	(282,979)
Subtotal	65,760	72,546
Land	2,479	2,479
Total	<u>\$ 68,239</u>	<u>\$ 75,025</u>



**Larry D. Johnson**  
Certified Public Accountant

### **Supplementary Information**





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**TIMBER COVE HOMES ASSOCIATION**  
**Schedule of Expenses**  
**For The Year Ended April 30, 2014**  
**(With Comparative Totals for April 30, 2013)**

	4/30/2014			4/30/2013
	OPERATING FUND	REPLACEMENT FUND	TOTAL	TOTAL
<b>Administrative Expenses</b>				
Administrative/Bookkeeping	\$ 23,715	\$ -	\$ 23,715	\$ 25,715
Architectural Review Costs	3,869	-	3,869	1,762
Reserve Study	1,000	-	1,000	-
Accounting/ Legal	1,985	-	1,985	2,850
Office Supplies/ Expense	6,868	-	6,868	8,817
Bad Debt Expense	3,141	-	3,141	6,698
State Income Tax	45	-	45	38
Miscellaneous Expenses	1,648	-	1,648	1,499
<b>Total Administrative Exp's</b>	<u>42,271</u>	<u>-</u>	<u>42,271</u>	<u>47,379</u>
<b>Operating Expenses</b>				
Depreciation	6,589	-	6,589	8,991
Wages: Security & Grounds	14,275	-	14,275	13,591
Security: Other Costs	2,516	-	2,516	2,915
Payroll Taxes	4,138	-	4,138	4,209
Road Maintenance	31,826	-	31,826	36,755
Property Taxes	158	-	158	156
Forest Management	9,080	-	9,080	600
Insurance	5,362	-	5,362	5,659
<b>Total Operating Expenses</b>	<u>73,944</u>	<u>-</u>	<u>73,944</u>	<u>72,876</u>
<b>Grand Total</b>	<u>\$ 116,215</u>	<u>\$ -</u>	<u>\$ 116,215</u>	<u>\$ 120,255</u>

See Accountant's Report