

TIMBER COVE HOMES ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

APRIL 30, 2018, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Partners of
Timber Cove Homes Association
Timber Cove, California

We have audited the accompanying financial statements of Timber Cove Homes Association, a limited Association, which comprise the balance sheet as of April 30, 2018, 2017 and 2016, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the 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 State 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 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 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.



Goranson and Associates, Inc.

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

Opinion

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Timber Cove Homes Association as of April 30, 2018, 2017 and 2016 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Goranson and Associates, Inc.

October 12, 2018

Santa Rosa, California

TIMBER COVE HOMES ASSOCIATION
BALANCE SHEET
APRIL 30, 2018, 2017, and 2016

	2018	2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents			
Operating fund	\$ 66,999	\$ 82,298	\$ 129,290
Performance bond	64,100	58,249	63,042
Replacement fund	39,528	94,095	113,711
Total cash and cash equivalents	170,627	234,642	306,043
Accounts receivable (net bad debt \$10,000)	44,184	87,633	50,724
Due from operating fund	45,000	-	-
Total current assets	259,811	322,275	356,767
Fixed assets:			
Road improvements	30,224	30,224	30,224
Accumulated depreciation	(30,095)	(28,584)	(26,722)
Net fixed assets	129	1,640	3,502
Other assets:			
	26	(33)	-
Total assets	\$ 259,966	\$ 323,882	\$ 360,269
LIABILITIES AND FUND BALANCE			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ 7,845
Performance bonds	64,100	58,249	63,042
Income tax payable	-	380	380
Due to reserve fund	45,000	-	-
Other current liabilities	1,090	3,893	2,843
Total current liabilities	110,190	62,522	74,110
Fund balance			
Operating fund	110,248	167,265	172,448
Replacement fund	39,528	94,095	113,711
Total fund balance	\$ 149,776	\$ 261,360	\$ 286,159
Total liabilities and fund balance	\$ 259,966	\$ 323,882	\$ 360,269

The accompanying notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN FUND BALANCES
 FOR THE YEARS ENDED APRIL 30, 2018, 2017, and 2016

	2018		
	Operating funds	Replacement funds	Total
Revenue			
Member assessments	\$ 155,009	\$ (54,649)	\$ 100,360
Architectural fees income	750	-	750
Performance bond	15,000	-	15,000
Miscellaneous income	1,193	-	1,193
Interest income	98	82	180
Total revenue	<u>172,050</u>	<u>(54,567)</u>	<u>117,483</u>
Expenses			
Administrative expenses	111,527		111,527
Operating expenses	<u>117,540</u>		<u>117,540</u>
Total expenses	<u>229,067</u>		<u>229,067</u>
Net income	(57,017)	(54,567)	(111,584)
Fund balance, beginning of year	<u>167,265</u>	<u>94,095</u>	<u>261,360</u>
Fund balance, end of year	<u>\$ 110,248</u>	<u>\$ 39,528</u>	<u>\$ 149,776</u>

The accompanying notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED APRIL 30, 2018, 2017, and 2016

	2017		
	Operating funds	Replacement funds	Total
Revenue			
Member assessments	\$ 113,163	\$ (19,989)	\$ 93,174
Architectural fees income	2,000	-	2,000
Miscellaneous income	7,305	-	7,305
Interest income	389	373	762
Total revenue	122,857	(19,616)	103,241
Expenses			
Administrative expenses	27,420		27,420
Operating expenses	100,620		100,620
Total expenses	128,040		128,040
Net income	(5,183)	(19,616)	(24,799)
Fund balance, beginning of year	172,448	113,711	286,159
Fund balance, end of year	\$ 167,265	\$ 94,095	\$ 261,360

The accompanying notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEARS ENDED APRIL 30, 2018, 2017, and 2016

	2016		
	Operating funds	Replacement funds	Total
Revenue			
Member assessments	\$ 123,398	\$ (26,048)	\$ 97,350
Architectural fees income	5,000	-	5,000
Performance bond	5,000	-	5,000
Miscellaneous income	1,070	-	1,070
Interest income	403	442	845
Total revenue	134,871	(25,606)	109,265
Expenses			
Administrative expenses	29,133		29,133
Operating expenses	50,305		57,337
Total expenses	79,438		79,438
Net income	55,433	(25,606)	29,827
Fund balance, beginning of year	187,447	139,317	326,764
Prior period adjustment	(70,432)	-	(70,432)
fund balance, beginning of year restated	117,015	139,317	256,332
Fund balance, end of year	\$ 172,448	\$ 113,711	\$ 286,159

The accompanying notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED APRIL 30, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	\$ (111,584)	\$ (24,799)	\$ 29,827
Adjustments to reconcile net income to net cash cash from operations			
Depreciation	5,276	4,626	4,908
(Increase) decrease in:			
Accounts receivable	43,449	(36,909)	6,864
Increase (decrease) in:			
Accounts payable and accrued expenses	-	(7,845)	7,845
Performance bonds	5,851	(4,793)	25,847
Income tax payable	(380)	-	(69,620)
Other current liabilities	(2,862)	1,083	2,463
Total cash provided by operating activities	<u>(60,250)</u>	<u>(68,637)</u>	<u>8,134</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase of plant, property and equipment	<u>(3,765)</u>	<u>(2,764)</u>	<u>(206)</u>
NET CHANGE IN CASH	(64,015)	(71,401)	7,928
CASH, beginning of year	<u>234,642</u>	<u>306,043</u>	<u>298,115</u>
CASH, end of year	<u>\$ 170,627</u>	<u>\$ 234,642</u>	<u>\$ 306,043</u>
Supplemental information:			
Cash paid for income taxes	<u>\$ 309</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

TIMBER COVE HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018, 2017 AND 2016

NOTE 1 ORGANIZATION

The Timber Cove Homes Association (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 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

The summary of the significant accounting policies is presented to assist in understanding the Association's financial statements. The financial statements and notes are representations of the Association's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been applied in the preparation of the financial statements.

Basis of accounting: The Association maintains their books on the accrual method of accounting.

Cash and 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.

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.

TIMBER COVE HOMES ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 APRIL 30, 2018, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Property, equipment, and depreciation: Property and equipment are stated at cost and determined from the 2013 Cost Certification Report. Depreciation is calculated using the straight-line method over their estimated useful lives of the related assets, which is as follows:

Asset	Years
Road improvements	20-30

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.

TIMBER COVE HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes: The Association is classified as a nonexempt membership organization for federal income tax purposes for the years ended April 30, 2016, 2017 and 2018. 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, non-membership transactions, and capital transactions.

For federal income tax purposes, the Association is taxed on all net income from non-membership 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 principle (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. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law, and new authoritative rulings.

TIMBER COVE HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018, 2017 AND 2016

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

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 \$39,528 for 2018, \$94,695 for 2017 and \$113,711 for 2016 in funds specifically set aside for funding 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 asset is 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 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, 2018, 2017 and 2016 is \$10,000. In 2018 there were two properties written off totaling \$12,630.

TIMBER COVE HOMES ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 2018, 2017 AND 2016

NOTE 5 DUE TO/FROM

The Association borrowed \$45,000 from reserve fund to cover operating expenses in January 2018. As funds allow, the operating fund will pay back the reserve fund.

NOTE 6 LEGAL

The Association had legal suits brought against them in the years that were audited, but they have all been resolved except as stated below.

A new lawsuit was brought upon the Association in early 2018 by a prior employee. The Association has not paid any funds towards the lawsuit but has received one bill for \$31,000. The lawsuit had not been quantified or completed as of the date of the audit completion.

NOTE 7 SUBSEQUENT EVENTS

The Association has evaluated subsequent events through October 12, 2018, the date financial statements were available to be issued, and determined that there were no events occurring subsequent to April 30, 2018, 2017 and 2016 that would have a material impact on the Association's results of operations or financial position.