

**EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED DECEMBER 31, 2018**

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1 – 2
FINANCIAL STATEMENTS	
Balance Sheet .....	3
Statement of Revenues, Expenses and Changes in Fund Balances.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6 - 8
SUPPLEMENTARY INFORMATION	
Supplementary Schedule of Operating Fund Expenses .....	9
Supplementary Schedule of Future Major Replacements.....	10 - 11

**SCOTT KRIVIS & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANT  
20700 VENTURA BOULEVARD, SUITE 234  
WOODLAND HILLS, CA 91364  
(818) 594-7200 \* (818) 594-0372 FAX

## **Independent Auditor's Report**

To the Board of Directors  
Eucalyptus Grove Homeowners' Association

We have audited the accompanying financial statements of Eucalyptus Grove Homeowners' Association which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balance 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 Eucalyptus Grove Homeowners' Association as of December 31, 2018, 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.

## **Report on Supplementary Information**

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Fund Expenses on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such Information is the responsibility of the Corporation's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

## **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 pages 10 and 11 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 in 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.



Scott Krivis and Company

Woodland Hills, CA  
February 28, 2019

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## BALANCE SHEET DECEMBER 31, 2018

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$5,000	\$2,552,499	\$2,557,499
Assessments Receivables	5,802		5,802
Prepaid Insurance	75,792		75,792
<b>TOTAL ASSETS</b>	<b><u>\$86,594</u></b>	<b><u>\$2,552,499</u></b>	<b><u>\$2,639,093</u></b>
<b>LIABILITIES</b>			
Accounts Payable	\$13,911		\$13,911
Prepaid Assessments	6,379		6,379
Taxes Payable		\$3,450	3,450
<b>TOTAL LIABILITIES</b>	<b><u>20,290</u></b>	<b><u>3,450</u></b>	<b><u>23,740</u></b>
<b>FUND BALANCES</b>	<b>66,304</b>	<b>2,549,049</b>	<b>2,615,353</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b><u>\$86,594</u></b>	<b><u>\$2,552,499</u></b>	<b><u>\$2,639,093</u></b>

See Independent Auditor's Report  
The accompanying notes are an integral part of these financial statements

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Member Assessments	\$484,433	\$310,172	\$794,605
Interest		26,646	26,646
Late Charges & Fines	1,247		1,247
Miscellaneous Income	1,745		1,745
<b>TOTAL REVENUES</b>	<b><u>487,425</u></b>	<b><u>336,818</u></b>	<b><u>824,243</u></b>
<b>EXPENSES</b>			
Operating	280,960		280,960
Administrative	123,494		123,494
Reserve Expenses		124,017	124,017
Income Tax Expense		7,450	7,450
<b>TOTAL EXPENSES</b>	<b><u>404,454</u></b>	<b><u>131,467</u></b>	<b><u>535,921</u></b>
Excess (deficiency) of revenues over expenses	82,971	205,351	288,322
Beginning fund balances	75,157	2,251,874	2,327,031
Transfers into (out of) funds	(91,824)	91,824	0
<b>ENDING FUND BALANCES</b>	<b><u>\$66,304</u></b>	<b><u>\$2,549,049</u></b>	<b><u>\$2,615,353</u></b>

See Independent Auditor's Report  
The accompanying notes are an integral part of these financial statements

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	OPERATING FUND	RESERVE FUND	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess (Deficiency) Of Revenues over Expenses	\$82,971	\$205,351	\$288,322
Adjustments to reconcile Excess (Deficiency) of Revenues over Expenses to net cash provided (used) by operating activities:			
Reserve Expenses		124,017	124,017
(Increase) Decrease in Current Assets:			
Assessments Receivable	3,170		3,170
Prepaid Insurance	2,436		2,436
Increase (Decrease) in Current Liabilities:			
Accounts Payable	3,052	(13,067)	(10,015)
Prepaid Assessments	195		195
Taxes Payable		2,529	2,529
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>91,824</b>	<b>318,830</b>	<b>410,654</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Reserve Expenses		(124,017)	(124,017)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		<b>(124,017)</b>	<b>(124,017)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Transfers to Reserve Fund	(91,824)	91,824	0
<b>NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(91,824)</b>	<b>91,824</b>	<b>0</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>0</b>	<b>286,637</b>	<b>286,637</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,000</b>	<b>2,265,862</b>	<b>2,270,862</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$5,000</b>	<b>\$2,552,499</b>	<b>\$2,557,499</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Income Taxes Paid		\$4,921	\$4,921

See Independent Auditor's Report  
The accompanying notes are an integral part of these financial statements

**EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Eucalyptus Grove Homeowners' Association (the "Association"), incorporated in the state of California on November 5, 1984, is an Association organized and operated to provide for the management, maintenance and care of Association property and common areas. The Association is a planned residential development of 179 units located in Goleta, California. In addition to such duties, the Association maintains architectural control, enforces its protective restrictions, and promotes the general welfare of the community comprising the Association.
- B. The Association books are maintained on the cash basis of accounting. For these financial statements, adjustments have been made to convert the Association's records to the accrual basis of accounting at the financial statement date. As a result, revenues are recognized when earned, and expenses are recognized when incurred.
- C. The Association is a not-for-profit organization, which employs the fund method of accounting. The fund method properly accounts for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership.

These financial statements separate funds into two classes. The first is the operating fund; these are funds whose disposition is at the discretion of the Board of Directors and the property manager and are generally used for operating expenses. The second is the restricted reserves; these are to be used for replacement of common area expenditures and may be lent to the operating fund, to be repaid within one year, for general operating purposes.

It is the Association's policy that any excess funds at the end of the operating year will be allocated to the following year or held as additional funds for the replacement of Association assets.

- D. The Association's cash and cash equivalent accounts, as well as its primary accounting records, are maintained by Bartlein & Company, Inc., located in Santa Barbara, California. Bartlein & Company, Inc. has been issued a Fidelity Bond in the amount of \$500,000. The insured party is Bartlein & Company, Inc.



**EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- E. Association members are subject to monthly assessments of \$370 for the years ending December 31, 2018 and December 31, 2019. The assessment receivable balance as of December 31, 2018 represents monthly assessments, late fees, fines and other charges due from the homeowners. The Association uses the allowance method to account for uncollectible assessments. As of December 31, 2018, the Association anticipates full collection of its assessments receivable and has reserved \$0 for uncollectible accounts.
- F. For purposes of the Statement of Cash Flows, the Association considers all money market accounts and certificates of deposit to be cash equivalents.
- G. The Association has used estimates in the preparation of the financial statements to be in conformity with generally accepted accounting principles. Actual results could differ from those estimates.
- H. Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements. Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

**NOTE 2 - REPLACEMENT RESERVES**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations. A formal independent reserve study determines the adequacy or deficiency of the association's actual reserves compared to the calculated reserve requirement. Actual replacement costs and major improvements are utilized to determine the optimum reserve requirement. A reserve study update was prepared by J.D. Brooks, dated September, 2016. An annual reserve study review was conducted by the Board of Directors to account for inflation and planning changes. The total expected replacement cost of reserve items is \$3,816,900 and the ideal reserve funding is \$2,420,138. As of December 31, 2018, the balance in the reserves was \$2,552,499 in money market funds and certificates of deposit to fund future replacements with over 100% of the ideal reserves funded.

**EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

**NOTE 2 - REPLACEMENT RESERVES (CONTINUED)**

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**NOTE 3 - INCOME TAXES**

Eucalyptus Grove Homeowners' Association files income taxes on a calendar year end. The Association has elected to be taxed as a regular corporation under the provisions of Section 277 of the Internal Revenue Code. Accordingly, the Association has taxable income of \$24,298 and a Federal income tax liability of \$5,103 for the year ended December 31, 2018. The Association made estimated payments of \$2,400 related to this liability. As of December 31, 2018, the Association recorded an income tax payable of \$2,703.

The Association has been granted a Section 23701 (t) exemption by the State of California. Any income from sources other than membership dues, fees, and assessments (exempt-function income) is taxable if it exceeds \$100 per year. The Association has non-exempt function income of \$26,545. State income tax liability on this income is \$2,347. The Association made estimated payments of \$1,600 related to this liability. As of December 31, 2018, the Association recorded an income tax payable of \$747.

**NOTE 4 – DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 28, 2019, the date that the financial statements were available to be issued.

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## SUPPLEMENTARY SCHEDULE OF OPERATING FUND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2018

### OPERATING EXPENSES

Electricity	\$17,209
Exterminating	7,425
Janitorial	10,560
Landscaping & Gardening	92,309
Miscellaneous	1,194
Pool Maintenance & Supplies	22,181
Repairs & Maintenance	43,278
Rubbish Removal	55,595
Security	50
Supplies	5,558
Telephone	795
Water & Sewer	24,806

**TOTAL OPERATING EXPENSES** 280,960

### ADMINISTRATIVE EXPENSES

Audit and Tax Preparation	2,015
Insurance	89,056
Management Fees	32,088
Other Taxes & License	10
Professional Fees	325

**TOTAL ADMINISTRATIVE EXPENSES** 123,494

**TOTAL OPERATING FUND EXPENSES** \$404,454

See Independent Auditor's Report  
The accompanying notes are an integral part of these financial statements

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## SUPPLEMENTARY SCHEDULE OF FUTURE MAJOR REPLACEMENTS DECEMBER 31, 2018

<u>ITEM</u>	<u>EXPECTED DATE DUE</u>	<u>EXPECTED REPLACEMENT COST</u>	<u>IDEAL RESERVES</u>	<u>CURRENT RESERVES</u>
Cabana Water Htr.	2019	\$3,100	\$3,100	\$3,100
Card Readers-Gym/Pool	2019	2,800	2,800	2,800
Mailbox Pagodas	2019	19,200	19,200	19,200
Paint Metal Fence & Rail	2019	5,300	5,300	5,300
Paint Wood/Metal Trim	2019	59,700	59,700	59,700
Spa Filter	2019	1,600	1,600	1,600
Termite Fumigation (7606)	2019	7,200	7,200	7,200
Termite Fumigation (7620)	2019	7,200	7,200	7,200
Intercom-Front Gate	2019	5,600	5,600	5,600
Cabana Floor & Wall Tile	2019	13,800	13,800	13,800
Cabana Bath Remodel	2019	6,400	6,400	6,400
Lights-Street Fixtures	2019	29,800	29,800	29,800
Pool & Spa Pumps	2019	6,400	6,400	6,400
Roof-Metal Carport	2019	217,500	217,500	217,500
Spa Retile	2019	7,300	7,300	7,300
Stair Landing Reseal	2019	19,700	19,700	19,700
Stair Rails (3.5')	2019	16,000	16,000	16,000
Paint-Wood Siding	2019	134,400	134,400	134,400
Paint Carports	2019	80,000	80,000	80,000
Paint Front Wood Fence	2019	5,400	5,400	5,400
Spa Heater	2019	4,300	4,300	4,300
Structural-Unpinning	2019	140,000	140,000	140,000
Structural Plumbing	2019	100,000	100,000	100,000
Termite Fumigation (7602)	2019	7,200	7,200	7,200
Termite Fumigation (7610)	2019	7,200	7,200	7,200
Tree Trimming	2020	19,200	12,800	12,800
Split Rail Fence	2020	8,600	8,313	8,313
Landscape Refurbish	2021	68,200	40,920	40,920
Asphalt Seal Coat/Repair	2021	20,500	6,833	6,833
Dryrot Repairs	2022	362,400	90,600	90,600
Bridge Repair	2022	13,200	11,220	11,220
Gates-Vehicle Roll	2022	7,700	6,776	6,776
Termite Fumigation (7624)	2023	7,200	5,280	5,280
Termite Fumigation (7636)	2023	7,200	5,280	5,280
Termite Fumigation (7640)	2023	7,200	5,280	5,280
Pool Refiberglass	2023	12,800	9,387	9,387
Subtotals		1,441,300	1,109,789	1,109,789

See Independent Auditor's Report

The accompanying notes are an integral part of these financial statements

# EUCALYPTUS GROVE HOMEOWNERS' ASSOCIATION

## SUPPLEMENTARY SCHEDULE OF FUTURE MAJOR REPLACEMENTS DECEMBER 31, 2018

<u>ITEM</u>	<u>EXPECTED DATE DUE</u>	<u>EXPECTED REPLACEMENT COST</u>	<u>IDEAL RESERVES</u>	<u>CURRENT RESERVES</u>
Subtotals		1,441,300	1,109,789	1,109,789
Stair Landing Resurface	2023	46,600	37,280	37,280
Siding Replacement	2025	394,500	276,150	276,150
Structural-Unpinning (Balance)	2026	70,000	56,000	56,000
Structural Plumbing (Balance)	2026	603,600	482,880	482,880
Termite Fumigation (7626)	2025	7,200	4,320	4,320
Exercise Room Equipment/Renn	2026	8,500	4,533	4,533
Pool Heater	2027	4,600	920	920
Pool Filter	2027	2,200	733	733
Card Reader/Buzzer-Gate	2027	2,800	933	933
Front Wood Fence	2027	35,800	21,480	21,480
Gate Operator - 2nd (Roll)	2028	6,000	600	600
Gate Operator - 1st (Roll)	2028	6,000	600	600
Front Gate Wiring	2028	3,400	340	340
Cabana Sauna Remodel	2028	6,200	3,410	3,410
Pool Decking	2028	13,300	7,315	7,315
Pool Tile/Coping	2028	4,100	2,255	2,255
Gutters/Downspouts	2029	52,200	31,320	31,320
Roof Shingle 7626, 30 & 34	2031	96,000	49,920	49,920
Termite Fumigation (7630)	2033	7,200	480	480
Termite Fumigation (7634)	2033	7,200	480	480
Termite Fumigation(7638)	2033	7,200	480	480
Termite Fumigation (7632)	2033	7,200	480	480
Termite Fumigation (7628)	2033	7,200	480	480
Sauna Heater	2033	3,300	990	990
Roof Shingle 7624 & 28	2034	64,000	25,600	25,600
Roof Shingle 7636 & 38	2035	64,000	23,040	23,040
Roof Shingle 7602, 06 & 10	2036	96,000	30,720	30,720
Asphalt Overlay	2037	422,100	168,840	168,840
Metal Pool Fence (6')	2037	10,500	2,940	2,940
Roof Shingle 7620, 32 & 40	2037	96,000	26,880	26,880
Foundation Waterproofing	2042	194,100	45,290	45,290
Trex Mid-Landings	2046	26,600	2,660	2,660
Unallocated				132,361
<b>TOTALS</b>		<b>\$3,816,900</b>	<b>\$2,420,138</b>	<b>\$2,552,499</b>

See Independent Auditor's Report  
The accompanying notes are an integral part of these financial statements