

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED MARCH 31, 2019

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# **BECK and COMPANY, CPAs, Inc.**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Members  
ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION

We have audited the accompanying financial statements of ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION which comprise the balance sheets as of March 31, 2019 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors 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 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 ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION as of March 31, 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in the notes are adequate to meet future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

### ***Summarized Comparative Information***

We have previously audited the Association's March 31, 2018 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated June 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended March 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION  
**Independent Auditor's Report (Continued)**

***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 on the last page 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 consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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.

**BECK and COMPANY, CPAs, Inc.**

Carlsbad, California

April 27, 2019

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION  
BALANCE SHEET  
MARCH 31, 2019  
(With Comparative Totals for 3/31/2018)**

	<b>2019</b>		<b>2018</b>	
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total Funds</b>	<b>Total Funds</b>
<b>ASSETS:</b>				
Cash including interest bearing deposits	\$ 19,187	\$ 182,942	\$ 202,129	\$ 200,473
Assessments Receivable	4,064		4,064	5,567
Prepaid Income Taxes	100		100	100
Prepaid Insurance	-		-	566
<b>TOTAL ASSETS</b>	<b>\$ 23,351</b>	<b>\$ 182,942</b>	<b>\$ 206,293</b>	<b>\$ 206,706</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 9,531	\$ 6,646	\$ 16,177	\$ 9,719
Prepaid Assessments	9,270		9,270	9,339
Loan Payable		1,014,073	1,014,073	1,076,553
<b>TOTAL LIABILITIES</b>	<b>18,801</b>	<b>1,020,719</b>	<b>1,039,520</b>	<b>1,095,611</b>
<b>FUND BALANCES</b>	<b>4,550</b>	<b>(837,777)</b>	<b>(833,227)</b>	<b>(888,905)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 23,351</b>	<b>\$ 182,942</b>	<b>\$ 206,293</b>	<b>\$ 206,706</b>

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES**  
**YEAR ENDED MARCH 31, 2019**  
**(With Comparative Totals for 3/31/2018)**

	<b>2019</b>			<b>2018</b>
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total Funds</b>	<b>Total Funds</b>
<b>REVENUES:</b>				
Member Assessments	\$ 186,858	\$ 153,942	\$ 340,800	\$ 340,800
Special Assessments	65,415		65,415	54,158
Interest Income		1,149	1,149	236
Other Income	5,919		5,919	-
<b>TOTAL REVENUES</b>	258,192	155,091	413,283	395,194
<b>EXPENSES:</b>				
<b>Maintenance</b>				
Landscaping	43,413		43,413	39,257
Common Area R & M	11,994		11,994	17,800
Pool Maintenance	8,580		8,580	10,453
Pest Control	2,844		2,844	6,341
Janitorial	1,613		1,613	981
<b>Utilities</b>				
Electricity & Gas	19,145		19,145	19,108
Water & Sewer	38,579		38,579	34,188
Telephone	1,798		1,798	1,487
<b>Administrative</b>				
Review/Tax Prep/Rsv Study	1,200		1,200	2,195
Insurance	23,475		23,475	20,497
Legal & Consulting	3,110		3,110	6,202
Management Fee	20,400		20,400	20,790
Office & Administrative	8,510		8,510	10,004
Taxes, Licenses & Permits	442		442	707
Loan Fee and Loan Interest		56,987	56,987	60,280
<b>Major Repairs and Replacements</b>		115,515	115,515	46,658
<b>TOTAL EXPENSES</b>	185,103	172,502	357,605	296,948
Excess of Revenues over Expenses or (Expenses over Revenue)	73,089	(17,411)	55,678	98,246
Beginning Fund Balances	32,615	(921,520)	(888,905)	(987,151)
Net Interfund Transfers	(101,154)	101,154	-	-
<b>ENDING FUND BALANCES</b>	<b>\$ 4,550</b>	<b>\$ (837,777)</b>	<b>\$ (833,227)</b>	<b>\$ (888,905)</b>

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED MARCH 31, 2019**  
**(With Comparative Totals for 3/31/2018)**

	2019		2018	
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenues over expenses	\$ 73,089	\$ (17,411)	\$ 55,678	\$ 98,246
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments Receivable	1,503		1,503	(1,775)
Prepaid Insurance	566		566	-
Prepaid Taxes	-		-	300
Increase (decrease) in:				
Accounts Payable	(188)	6,646	6,458	2,302
Prepaid Assessments	(69)		(69)	2,296
	<u>74,901</u>	<u>(10,765)</u>	<u>64,136</u>	<u>101,369</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
	74,901	(10,765)	64,136	101,369
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Loan Reduction		(62,480)	(62,480)	(59,179)
Interfund transfers	(101,154)	101,154	-	-
Sub Total	<u>(26,253)</u>	<u>27,909</u>	<u>1,656</u>	<u>42,190</u>
NET INCREASE (DECREASE) IN CASH	(26,253)	27,909	1,656	42,190
CASH AT BEGINNING OF YEAR	<u>45,440</u>	<u>155,033</u>	<u>200,473</u>	<u>158,283</u>
CASH AT END OF YEAR	<u>\$ 19,187</u>	<u>\$ 182,942</u>	<u>\$ 202,129</u>	<u>\$ 385,071</u>
<b>SUPPLEMENTAL DISCLOSURE</b>				
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 1 – ORGANIZATION**

ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION was incorporated on March 12, 1984 as a nonprofit mutual benefit corporation in the State of California. Its primary purpose is to act as “management body” for the preservation, maintenance and architectural control of the common areas within the project. There are 71 residential units in the condominium development in Encinitas, California.

**NOTE 2 – DATE OF MANAGEMENT’S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through date of this report, which is the date that the financial statements were available to be issued.

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY**

Fund Accounting

The Association’s accounting records are maintained on a modified accrual basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

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. The annual budget and assessments of owners are determined by the Board of Directors who are elected by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Association’s policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. The Association uses a guideline of 100% provision for Allowance for Doubtful Accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

Property and Equipment

Real property and common areas acquired from the developer and related improvements are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

Interest Income

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

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2019

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)**

Cash, Cash Equivalents, Certificates of Deposit, and Investments

Per the provisions of U.S. generally accepted accounting principles in regard to the “Statement of Cash Flows,” cash and cash equivalents include the Association’s cash, checking accounts, money market funds and certificates of deposits with original maturities of 90 days or less. Certificates of Deposit with original maturities over 90 days are listed separately as Certificates of Deposit. Other investment accounts are listed as investments (if any).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the report date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

Summarized Prior Year Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. It is being shown for informational purposes only. Accordingly, such information should be read in conjunction with the Association’s financial statements for the year ended March 31, 2018 of the prior year, from which the summarized information was derived.

**NOTE 4 – INCOME TAXES**

The Association qualifies as a tax-exempt homeowners’ association under Internal Revenue Code Section 528 and California Revenue and Taxation Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest. The applicable tax rate is 30% for the federal government and 8.84% for the Franchise Tax Board. Generally, the Association treats income tax expenses as an operating expense regardless of the fund through which the related taxable income was recognized.

The Association’s income tax returns are subject to examination by the Internal Revenue Service generally for three years after they are filed, and by the Franchise Tax Board for four years after they are filed. In evaluating the Association’s tax positions and accruals, the Association believes that the estimates are appropriate based on the current facts and circumstances.

**NOTE 5 – LOAN PAYABLE**

The Association has obtained a line of credit from Mutual of Omaha Bank to pay for various major repair and maintenance costs. The loan balance outstanding was \$1,014,073 at the end of this fiscal year. The annual interest rate is 5.36%. Loan principal payments totaled \$59,180 during the year ended March 31, 2019.



**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2019**

**NOTE 6 – SPECIAL ASSESSMENTS**

The Association assessed \$240 per unit due and payable on August 1, 2017 and \$367.50 per unit due and payable on March 1, 2018 to increase the Reserve Fund for various major repairs and replacements and also to pay down the loan outstanding.

**NOTE 7 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association’s governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate interest-bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in February of 2019 to estimate the remaining useful lives and the replacement costs of the common property components.

The Association should fund such major repairs and replacements over the estimated useful lives of the components based on the study’s estimates of current replacements costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary materially from the estimates. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds turn out to be necessary, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$115,515 for major repairs and replacements as follows:

Access System	\$ 1,208
Contingency	114
Fences/Gates/Wall	7,408
Landscape/Sprinklers	47,358
Pest Control/Termites	15,210
Plumbing	17,020
Pool & Spa Equipment	6,883
Streets/Driveways/Wlkways	6,646
Wood Replacement	13,668
	<b>\$ 115,515</b>

**ENCINITAS VILLAGE HOMEOWNERS ASSOCIATION**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**MARCH 31, 2019**  
**(UNAUDITED)**

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the common area replacement components during February of 2019.

The estimates were based on inspection by the independent consultant, and the information provided by the Board of Directors, property manager and others familiar with the development. Replacement costs were based on the estimated costs to repair or replace the common area replacement components at the time 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 presents significant information about the components of common property.

Category	Estimated Remaining Useful Lives(Years)	Estimated Current Replacement Costs	Annual Funding Requirement	Fully Funded Reserve Requirement
Access System	1-12	\$ 20,865	\$ 1,772	\$ 13,061
Asphalt & Concrete	3-29	138,200	7,040	47,120
Buildings, Balconies & Doors	4-10	24,400	2,366	8,457
Buildings, Roof	4-47	653,400	14,304	51,440
Buildings, Termite Treatments	1	15,000	7,500	7,500
Buildings, Wood Replacements	17	174,660	8,733	26,199
Contingency	0	2,300	2,300	2,300
Electrical/Lights	4-11	13,495	607	9,176
Fence/Gates/Wall	3-35	77,996	3,222	17,006
Irrigation	1-9	16,750	1,255	8,335
Landscape	0-9	35,000	8,000	8,000
Mailboxes & Signage	1-5	9,350	365	8,685
Paint	1-5	189,891	27,974	84,331
Plumbing	1	10,000	5,000	5,000
Pool & Spa	0-17	117,513	6,723	67,991
Tennis Court	0	7,386	923	7,386
<b>Totals</b>		<b>\$ 1,506,206</b>	<b>\$ 98,084</b>	<b>\$ 371,987</b>

As of March 31, 2019, the annual budgeted allocation to replacements is \$153,942 and the cash/cash equivalent/investments in replacement funds as of March 31, 2019 total \$182,942.

California Civil Code requires a physical inspection every three years. The reserve study must be reviewed annually and updated as necessary. The report must be available to all owners. Although the code does not require adequate funding, disclosure must be made.