

**CROSSWOODS HOMEOWNERS ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

December 31, 2018 and 2017

Not Valid for Title Transfer

CROSSWOODS HOMEOWNERS ASSOCIATION

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Crosswoods Homeowners Association

We have reviewed the accompanying financial statements of Crosswoods Homeowners Association, a California nonprofit mutual benefit corporation, which comprise the balance sheets as of December 31, 2018 and 2017, 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. 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, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information in the Schedule of Operating Fund Revenues and Expenses - Budget and Actual on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the review procedures applied in our reviews of the basic financial statements (except for the budget information, which was not subjected to the inquiry and analytical procedures applied in the reviews of the basic financial statements but was compiled from information that is the representation of management, on which we do not express an opinion or provide any assurance). We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on it.

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Other Matter - Required Supplementary Information

The Association's plans to fund for the future replacement and major repairs of common areas are discussed in Note 4. We have not applied procedures to determine whether these funds are adequate to meet the future costs, as that is not a requirement of a review engagement.

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 9 be presented to supplement the basic financial statements. Such information, although not a required 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. Such information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

Prop Britton Coniglio LLP

Roseville, California
April 8, 2019

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CROSSWOODS HOMEOWNERS ASSOCIATION

BALANCE SHEETS
December 31, 2018 and 2017

	2018			2017		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
<u>Assets</u>						
Cash, including						
interest bearing deposits	\$ 93,322	\$ 381,300	\$ 474,622	\$ 100,584	\$ 448,435	\$ 549,019
Certificates of deposit		482,633	482,633		680,593	680,593
Dues and assessments						
receivable, net	8,689		8,689	6,539		6,539
Prepaid expenses	5,011		5,011	18,700		18,700
Total assets	<u>\$ 107,022</u>	<u>\$ 863,933</u>	<u>\$ 970,955</u>	<u>\$ 125,823</u>	<u>\$ 1,129,028</u>	<u>\$ 1,254,851</u>
<u>Liabilities</u>						
Accounts payable	\$ 31,422	\$	\$ 31,422	\$ 29,813	\$ 250	\$ 30,063
Accrued expenses	25,807	28,236	54,043	39,063		39,063
Income taxes payable	5,828		5,828			
Assessments received in advance	72,920		72,920	50,370		50,370
Comcast deferred revenue				5,412		5,412
Refundable deposits	26,187		26,187	26,187		26,187
Unfunded replacement reserves	273,162	(273,162)		111,036	(111,036)	
Total liabilities	435,326	(244,926)	190,400	261,881	(110,786)	151,095
<u>Fund balances</u>	<u>(328,304)</u>	<u>1,108,859</u>	<u>780,555</u>	<u>(136,058)</u>	<u>1,239,814</u>	<u>1,103,756</u>
Total liabilities and fund balances	<u>\$ 107,022</u>	<u>\$ 863,933</u>	<u>\$ 970,955</u>	<u>\$ 125,823</u>	<u>\$ 1,129,028</u>	<u>\$ 1,254,851</u>

See accompanying notes and independent accountant's review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
<u>Revenues</u>						
Member assessments	\$ 1,395,306	\$ 639,606	\$ 2,034,912	\$ 1,451,152	\$ 583,760	\$ 2,034,912
Comcast incentive revenue	5,412		5,412	6,615		6,615
Interest income	419	12,131	12,550	12,100	2,153	14,253
RV lot rental	20,981		20,981	21,457		21,457
Litigation proceeds		35,000	35,000		35,000	35,000
Transfer fees				7,875		7,875
Gain on sale of equipment	23,806		23,806			
Late charges and other income	22,639		22,639	16,973		16,973
Total revenues	<u>1,468,563</u>	<u>686,737</u>	<u>2,155,300</u>	<u>1,516,172</u>	<u>620,913</u>	<u>2,137,085</u>
<u>Expenses</u>						
Landscape salaries and maintenance	601,750		601,750	466,022		466,022
Facilities salaries and maintenance	260,566		260,566	365,572		365,572
Administration expense	186,319		186,319	285,372		285,372
RV lot expense	9,610		9,610	5,993		5,993
Utilities	242,780		242,780	260,492		260,492
Cable TV	207,709		207,709	198,409		198,409
Accounting	5,200		5,200	5,200		5,200
Bad debts	10,685		10,685	5,675		5,675
Legal fees	14,488		14,488	47,935		47,935
Insurance	113,633		113,633	109,087		109,087
Income taxes	8,069		8,069	1,719		1,719
Repairs and replacements		817,692	817,692		350,724	350,724
Total expenses	<u>1,660,809</u>	<u>817,692</u>	<u>2,478,501</u>	<u>1,751,476</u>	<u>350,724</u>	<u>2,102,200</u>
Excess (deficit) of revenues over expenses	(192,246)	(130,955)	(323,201)	(235,304)	270,189	34,885
Beginning fund balances	<u>(136,058)</u>	<u>1,239,814</u>	<u>1,103,756</u>	<u>99,246</u>	<u>969,625</u>	<u>1,068,871</u>
Ending fund balances	<u>\$ (328,304)</u>	<u>\$ 1,108,859</u>	<u>\$ 780,555</u>	<u>\$ (136,058)</u>	<u>\$ 1,239,814</u>	<u>\$ 1,103,756</u>

See accompanying notes and independent accountant's review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:						
Excess (deficit) of revenues over expenses	\$ (192,246)	\$ (130,955)	\$ (323,201)	\$ (235,304)	\$ 270,189	\$ 34,885
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:						
Bad debts	10,685		10,685	5,675		5,675
(Increase) decrease in:						
Dues and assessments receivable	(12,835)		(12,835)	5,569		5,569
Prepaid expenses	13,689		13,689	77,723		77,723
Increase (decrease) in:						
Accounts payable	1,609	(250)	1,359	(10,738)	(32,440)	(43,178)
Accrued expenses	(13,256)	28,236	14,980	39,063		39,063
Income taxes payable	5,828		5,828	(6,607)		(6,607)
Assessments received in advance	22,550		22,550	8,650		8,650
Comcast deferred revenue	(5,412)		(5,412)	(6,615)		(6,615)
Vacation payable				(42,764)		(42,764)
Refundable deposits				1,536		1,536
Net cash provided by (used in) operating activities	<u>(169,388)</u>	<u>(102,969)</u>	<u>(272,357)</u>	<u>(163,812)</u>	<u>237,749</u>	<u>73,937</u>
Cash flows from investing activities:						
Net change in certificates of deposit		197,960	197,960		(12,205)	(12,205)
Cash flows from financing activities:						
Change in funding of replacement reserves	162,126	(162,126)		220,136	(220,136)	
Net increase (decrease) in cash	(7,262)	(67,135)	(74,397)	56,324	5,408	61,732
Cash, beginning of year	100,584	448,435	549,019	44,260	443,027	487,287
Cash, end of year	<u>\$ 93,322</u>	<u>\$ 381,300</u>	<u>\$ 474,622</u>	<u>\$ 100,584</u>	<u>\$ 448,435</u>	<u>\$ 549,019</u>
Supplemental disclosure:						
Income taxes paid	<u>\$ -</u>		<u>\$ -</u>	<u>\$ 8,567</u>		<u>\$ 8,567</u>

See accompanying notes and independent accountant's review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1: NATURE OF ORGANIZATION

Crosswoods Homeowners Association was incorporated in December 1971 under the Nonprofit Mutual Benefit Corporation Law of the State of California. The specific and primary purpose for which the organization was formed is to provide for the management, administration, operation, maintenance, protection, preservation and architectural control of the common areas within the development to the extent described in the Declaration of Covenants, Conditions and Restrictions for the Association, enforce the rules and regulations adopted by the Board of Directors from time to time, and discharge such other lawful duties and responsibilities required pursuant to the Corporation's Bylaws and the Declaration of Covenants, Conditions and Restrictions. The organization is supported by monthly assessments to its 451 residential units located in Citrus Heights, California.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are prepared using the accrual basis of accounting.

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 of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents, if any, are classified with cash in the balance sheet.

Capitalization Policy and Depreciation

In accordance with the Association's capitalization policy, property and equipment acquired to which the Association has normal ownership rights, will be capitalized at cost and depreciated over its estimated useful life using the straight-line method.

Common Area

Common area property and equipment, including and not limited to certain paved streets, roofing, decking, lighting, landscaping, fencing and infrastructure contributed to the Association by the project developer, has not been capitalized on the Association's financial statements.

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. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent.

Dues and Assessments Receivable

At December 31, 2018 and 2017, dues and assessments receivable is net of an allowance for uncollectible accounts of \$18,310 and \$15,675, respectively. It is the opinion of management and the Board of Directors that the remaining balances will be collected by the Association.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended December 31, 2018 and 2017, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings. Exempt function income, which consists primarily of member assessments, is not taxable.

Federal and state income taxes were \$5,520 and \$2,549, respectively, for the year ended December 31, 2018, and \$1,299 and \$420, respectively, for the year ended December 31, 2017.

After they are filed, the Association's income tax returns remain subject to examination by taxing authorities generally three years for federal returns and four years for state returns.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Interest Income

Interest income earned on operating and replacement funds is allocated to the operating fund.

Subsequent Events

The Association has evaluated events and transactions for potential recognition or disclosure through April 8, 2019, the date that the financial statements were available to be issued.

NOTE 3: CERTIFICATES OF DEPOSIT

The Association's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. At December 31, 2018 and 2017, the Association's certificates of deposit consist of the following:

	2018	2017
Compass Bank	\$ 254,460	\$ 249,471
First Internet Bank	107,989	105,747
Safe Credit Union	120,184	219,077
State Farm	106,298	106,298
	<u>\$ 482,633</u>	<u>\$ 680,593</u>

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is required by its governing documents to set aside funds for future major repairs and replacements. The annual provision to the fund as determined by the Board of Directors is reported as a provision of \$686,737 and \$620,913 for the years ended December 31, 2018 and 2017, respectively. The Association provides for future major repairs and replacements by allocating a fixed amount of the monthly homeowners' assessment dues to an accrued replacement fund. The adequacy of the accrued replacement fund is dependent upon increasing the balance of this fund to a level sufficient to meet future required expenditures.

The amounts set aside as replacement fund balance represent estimates, determined by the Board of Directors, of future major repair and replacement expenditures. Actual expenditures, however, 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 future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

CROSSWOODS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

Replacement fund balance as of December 31, 2016	\$ 969,625
Provisions for year ended December 31, 2017	620,913
Charges for year ended December 31, 2017	<u>(350,724)</u>
Replacement fund balance as of December 31, 2017	1,239,814
Provisions for year ended December 31, 2018	686,737
Charges for year ended December 31, 2018	<u>(817,692)</u>
Replacement fund balance as of December 31, 2018	<u>\$ 1,108,859</u>

Charges to reserves for the years ended December 31, 2018 and 2017 consist of the following:

<u>2018</u>		<u>2017</u>	
Asphalt	\$ 72,760	Pool and spa	\$ 22,610
Concrete	117,786	Decks	46,129
Decking	189,452	Gutters	53,534
Fencing	5,400	Equipment	20,544
Furnishings	5,347	Fencing	25,110
Gutters	5,490	Miscellaneous	19,116
Miscellaneous	1,949	Concrete driveway	23,496
Painting	62,474	Ramada	7,857
Plumbing	37,965	Roofing	522
Pool	3,036	RV lot	1,040
Roofing	30,789	Underground utilities	80,903
Siding	269,303	Siding and painting	<u>49,863</u>
Walls	<u>15,941</u>		
	<u>\$ 817,692</u>		<u>\$ 350,724</u>

An independent consultant updated a reserve study to determine the adequacy of funding for replacements. The report of the study is shown on page 9.

NOTE 5: LITIGATION

Phases 1-6 Settlement

Litigation related to Phases 1-6 was settled in a prior year. The settlement agreement requires payments to the Association in the amount of \$35,000 per year for 30 years. As of December 31, 2018 and 2017, the remaining portion of the settlement proceeds to be received by the Association is \$35,000 and \$70,000, respectively.

NOTE 6: COMCAST COMPENSATION AGREEMENT

In October 2015, the Association renewed a five-year compensation agreement, expiring in 2020, with Comcast of Sacramento I, LLC, for granting Comcast the right to provide cable television, internet and voice services to the Association's premises. Under the terms of the service agreement, Comcast paid the Association a one-time per unit fee of \$36 for a total of \$16,236. The Association is recognizing the income and expense over the five years of the agreement. During 2018 and 2017, \$5,412 and \$6,615, respectively, was recognized as income and \$5,412 was deferred at December 31, 2017.

NOTE 7: COMMITMENTS

In 2017, the Board of Directors executed an Association Management Agreement for management services to be provided to the Association effective October 1, 2017.

NOTE 8: INSURANCE ASSESSMENTS

During 2017, the Board of Directors agreed to discontinue the insurance assessment used to pay for the Association's general liability insurance policy. General liability insurance premiums will now be paid in monthly installments and are covered as a line item on the operating budget.

SUPPLEMENTARY INFORMATION

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CROSSWOODS HOMEOWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS

December 31, 2018

An independent consultant updated a study in 2018 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date 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.

Component	Estimated Current Replacement Costs	Estimated Remaining Life in Years	2018 Fully Funded Balance	Replacement Fund Balance
General				
Paving	\$ 649,699	0 to 18	\$ 431,245	
Concrete	287,625	0 to 3	284,199	
Painting - exterior	344,924	0 to 2	198,696	
Structural repairs	2,708,776	0 to 23	1,260,936	
Decking/balconies	2,456,591	0 to 23	1,585,247	
Roofing	5,196,535	0 to 27	2,605,439	
Rehab	17,311	3 to 4	13,452	
Gate equipment	17,780	0 to 7	5,509	
Pool	71,104	0 to 27	53,471	
Landscaping	159,483	1 to 22	106,652	
Fencing	96,697	0 to 25	59,221	
Retaining wall	44,059	0 to 15	34,510	
Lighting	65,035	2 to 14	50,398	
Signage	1,076	12 to 12	215	
Office equipment	23,157	3 to 3	7,569	
Mechanical equipment	9,686	2 to 7	7,565	
Furnishings	1,222	3 to 3	698	
Safety/access	6,645	3 to 3	3,322	
Flooring	2,883	4 to 4	1,512	
Outdoor equipment	5,815	17 to 17	872	
Infrastructure	83,776	0 to 12	56,160	
Miscellaneous	205,264	0 to 17	121,935	
Reserve study	4,510	1 to 1	3,007	
	12,459,653		6,891,830	
General total				
RV Lot				
Paving	85,609	0 to 12	74,464	
Gate equipment	9,695	2 to 3	6,569	
Fencing	23,000	2 to 2	21,467	
Lighting	5,322	2 to 2	4,613	
Safety/access	4,000	12 to 12	800	
	127,626		107,913	
RV Lot total				
Association Totals	\$ 12,587,279		\$ 6,999,743	\$ 1,108,859

See independent accountant's review report.

CROSSWOODS HOMEOWNERS ASSOCIATION

SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES -
BUDGET AND ACTUAL

For the Years Ended December 31, 2018 and 2017

	2018		2017	
	Budget (Compiled)	Actual	Budget (Compiled)	Actual
<u>Revenues</u>				
Member assessments	\$ 2,034,912	\$ 2,034,912	\$ 2,034,912	\$ 2,034,912
Comcast incentive revenue		5,412		6,615
Insurance assessments			122,672	
Interest income	14,620	12,550	14,620	14,253
RV lot rental	22,000	20,981	22,000	21,457
Litigation proceeds	35,000	35,000	35,000	35,000
Transfer fees			12,250	7,875
Gain on sale of equipment		23,806		
Late charges and other income	85,936	22,639	21,900	16,973
Prior year excess			75,656	
Total revenues	<u>2,192,468</u>	<u>2,155,300</u>	<u>2,339,010</u>	<u>2,137,085</u>
<u>Expenses</u>				
Landscape salaries and maintenance	561,279	601,750	545,181	466,022
Facilities salaries and maintenance	253,595	260,566	462,660	365,572
Administration expense	182,601	186,319	251,897	285,372
RV lot expense	5,750	9,610	5,750	5,993
Utilities	166,500	242,780	158,500	260,492
Cable TV	189,590	207,709	189,590	198,409
Accounting	5,500	5,200	5,500	5,200
Bad debts	7,500	10,685	7,500	5,675
Legal fees	6,000	14,488	6,000	47,935
Insurance	124,927	113,633	122,672	109,087
Income taxes		8,069		1,719
Total expenses	<u>1,503,242</u>	<u>1,660,809</u>	<u>1,755,250</u>	<u>1,751,476</u>
Excess of revenues over expenses from operations	689,226	494,491	583,760	385,609
Replacement provision	<u>689,226</u>	<u>686,737</u>	<u>583,760</u>	<u>620,913</u>
Deficit of revenues over expenses	<u>\$ -</u>	<u>\$ (192,246)</u>	<u>\$ -</u>	<u>\$ (235,304)</u>

See independent accountant's review report.