

# Eldorado Property Owners Association

## (A California Nonprofit Corporation)

Financial Report

Years Ended June 30, 2015 and 2014

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors and Members  
Eldorado Property Owners Association  
Indian Wells, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Eldorado Property Owners Association (a California nonprofit corporation) (the Association), which comprise the balance sheet as of June 30, 2015, and the related statement of revenues and expenses, 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 control 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 auditors' 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 auditors consider internal control relevant to the Association'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 Association'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 the Association as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited Eldorado Property Owners Association 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements on page 14 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 consist of 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, or 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.

*Hutchinson and Bloodgood LLP*

October 13, 2015

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
**(A California Nonprofit Corporation)**

Balance Sheets

June 30, 2015

(With Comparative Totals as of June 30, 2014)

	Operating Fund	Replacement Fund	2015	2014
<b>ASSETS</b>				
Current Assets				
Cash (Notes 1 and 3)	\$ 208,172	\$ 278,639	\$ 486,811	\$ 867,522
Certificates of deposit (Note 2)	<u>523,000</u>	<u>1,303,075</u>	<u>1,826,075</u>	<u>1,193,190</u>
Total cash and certificates of deposit	731,172	1,581,714	2,312,886	2,060,712
Accounts receivable (Note 1)	17,982	--	17,982	53,200
Prepaid expenses	26,092	--	26,092	42,314
Interfund receivable (payable)	<u>69,882</u>	<u>(69,882)</u>	<u>--</u>	<u>--</u>
Total current assets	<u>845,128</u>	<u>1,511,832</u>	<u>2,356,960</u>	<u>2,156,226</u>
Property (Note 1)				
Operating equipment	147,140	--	147,140	161,677
Security equipment	72,920	--	72,920	--
Pump and irrigation equipment	96,730	--	96,730	96,730
Leasehold improvements	65,840	--	65,840	65,840
Street lights	<u>266,601</u>	<u>--</u>	<u>266,601</u>	<u>233,321</u>
	649,231	--	649,231	557,568
Less accumulated depreciation	<u>(215,415)</u>	<u>--</u>	<u>(215,415)</u>	<u>(168,477)</u>
Total property	<u>433,816</u>	<u>--</u>	<u>433,816</u>	<u>389,091</u>
Total assets	<u>\$ 1,278,944</u>	<u>\$ 1,511,832</u>	<u>\$ 2,790,776</u>	<u>\$ 2,545,317</u>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	\$ 12,489	\$ --	\$ 12,489	\$ 9,299
Deferred dues and maintenance	264,820	--	264,820	260,688
Deferred cable charges	80,154	--	80,154	62,196
Refundable construction deposits	40,000	--	40,000	70,000
Income tax payable	<u>--</u>	<u>--</u>	<u>--</u>	<u>30,000</u>
Total current liabilities	<u>397,463</u>	<u>--</u>	<u>397,463</u>	<u>432,183</u>
Commitments (Note 5)				
Fund Balances				
Operating	881,481	--	881,481	740,338
Replacement	<u>--</u>	<u>1,511,832</u>	<u>1,511,832</u>	<u>1,372,796</u>
Total fund balances	<u>881,481</u>	<u>1,511,832</u>	<u>2,393,313</u>	<u>2,113,134</u>
Total liabilities and fund balances	<u>\$ 1,278,944</u>	<u>\$ 1,511,832</u>	<u>\$ 2,790,776</u>	<u>\$ 2,545,317</u>

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
**(A California Nonprofit Corporation)**

Statements of Revenues and Expenses

Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

	Operating Fund	Replacement Fund	2015	2014
<b>REVENUES</b>				
Annual lot dues	\$ 514,930	\$ --	\$ 514,930	\$ 514,250
Rental income (Note 4)	--	174,835	174,835	312,406
Escrow transfer fees	--	4,400	4,400	9,000
Construction permit and plan check fees	--	23,378	23,378	18,688
Lot maintenance	11,686	--	11,686	10,245
ECC reimbursements	120,110	--	120,110	127,877
ECOA reimbursements	16,014	--	16,014	16,134
Total revenues	<u>662,740</u>	<u>202,613</u>	<u>865,353</u>	<u>1,008,600</u>
<b>EXPENSES</b>				
Maintenance				
ECC gardening services	192,487	--	192,487	194,086
Repairs and maintenance - landscaping	70,566	--	70,566	69,263
Repairs and maintenance - streets	26,952	--	26,952	98,969
Repairs and maintenance - storm channel	41,030	--	41,030	17,245
Services				
ECC accounting and payroll (Note 6)	50,710	--	50,710	50,434
ECC management service (Note 6)	33,860	--	33,860	33,676
Professional fees	17,111	1,150	18,261	20,971
Insurance	13,468	--	13,468	12,976
Contract services	11,863	--	11,863	11,601
Other				
Utilities	50,683	--	50,683	47,550
Maintenance facility rental (Note 6)	11,628	--	11,628	11,628
Office supplies cable television fees (Note 5)	4,695	395	5,090	748
Supplies and small tools	1,496	--	1,496	1,077
Equipment rental	2,005	--	2,005	3,012
Uniforms	3,518	--	3,518	1,699
Total expenses	<u>532,072</u>	<u>1,545</u>	<u>533,617</u>	<u>574,935</u>
<b>OTHER INCOME AND EXPENSES</b>				
Interest income	--	20,887	20,887	9,731
Depreciation (Note 1)	(46,938)	--	(46,938)	(39,682)
Miscellaneous income (expense)	--	3,709	3,709	(416)
Income taxes (Note 7)	(34,249)	--	(34,249)	(59,809)
Total other income and expenses	<u>(81,187)</u>	<u>24,596</u>	<u>(56,591)</u>	<u>(90,176)</u>
Excess of revenues over expenses	<u>\$ 49,481</u>	<u>\$ 225,664</u>	<u>\$ 275,145</u>	<u>\$ 343,489</u>

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Statements of Changes in Fund Balances  
Year Ended June 30, 2015  
(With Comparative Totals for the Year Ended June 30, 2014)

	Operating Fund	Replacement Fund	2015	2014
<b>FUND BALANCE</b> - Beginning of Year	\$ 740,338	\$ 1,372,796	\$ <b>2,113,134</b>	\$ 1,764,220
Excess of revenues over expenses	49,481	225,664	<b>275,145</b>	343,489
Other changes in fund balance	--	5,034	<b>5,034</b>	5,425
Interfund Transfers for capital improvements	<u>91,662</u>	<u>(91,662)</u>	<u>--</u>	<u>--</u>
<b>FUND BALANCE</b> - End of Year	<u>\$ 881,481</u>	<u>\$ 1,511,832</u>	<u>\$ <b>2,393,313</b></u>	<u>\$ 2,113,134</u>

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
**(A California Nonprofit Corporation)**

Statements of Cash Flows

Year Ended June 30, 2015

(With Comparative Totals for the Year Ended June 30, 2014)

	Operating Fund	Replacement Fund	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess of revenues over expenses	\$ 49,481	\$ 225,664	\$ 275,145	\$ 343,489
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Depreciation	46,938	--	46,938	39,682
Unrealized (gain) loss on investments	--	(5,034)	(5,034)	(5,425)
Decrease (increase) in:				
Accounts receivable	35,218	--	35,218	11,598
Prepaid expenses	16,222	--	16,222	(32,246)
Interfund receivable (payable)	(76,864)	76,864	--	--
Increase (decrease) in:				
Accounts payable	3,190	--	3,190	7,578
Accrued other expenses	22,089	--	22,089	(1,575)
Income taxes, including deferred income taxes	(30,000)	--	(30,000)	7,719
Refundable construction deposits	(30,000)	--	(30,000)	10,000
Net cash flows provided by operating activities	36,274	297,494	333,768	380,820
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from the sale of certificates of deposit	--	249,000	249,000	648,657
Purchase of certificates of deposit	(523,000)	(348,817)	(871,817)	(937,091)
Purchase of fixed assets	(91,662)	--	(91,662)	(132,169)
Net cash flows used in investing activities	(614,662)	(99,817)	(714,479)	(420,603)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Interfund transfer to fund fixed asset purchases	91,662	(91,662)	--	--
Net increase (decrease) in cash	(486,726)	106,015	(380,711)	(39,783)
<b>CASH, beginning of the year</b>	694,898	172,624	867,522	907,305
<b>CASH, end of year</b>	\$ 208,172	\$ 278,639	\$ 486,811	\$ 867,522
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>				
Cash paid for income taxes			\$ 45,549	\$ 85,590



**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** Eldorado Property Owners Association (a California nonprofit corporation) (the Association) was incorporated in the state of California on February 14, 1958 as a homeowners' association. The Association provides certain maintenance and security services for 233 homes and nine vacant lots and common areas associated with those units, located on 220 acres within Eldorado Country Club (the Club) in Indian Wells, California.

Membership in the Association does not entitle the member to any individual interest, participation, share or property right in the assets of the Association. All properties owned by the Association and such funds as are accumulated, if any, are the indivisible property of the Association as a whole, to be used only for corporate purposes. Upon dissolution or winding-up of the Association, after paying or adequately providing for the debts and obligations of the Association, the directors or persons in charge of the liquidation shall assign, transfer or convey any remaining assets to the members of the Association. Such assets are to be divided into a number equal to the number of lots owned of record by all members, and each member is to receive a proportionate share of such assets based upon the number of lots that such member owns.

Under Amended and Restated Declaration of Conditions and Restrictions (CC&R's) recorded May 10, 2010 and expiring on April 17, 2030, no person(s) shall purchase a Lot within the Project until and unless each such person has been accepted for membership in the Eldorado Country Club, unless the Association fails to exercise its rights of first refusal to purchase the Lot as outlined in the CC&R's. Specifically, if a prospective purchaser of a Lot within the Project is not accepted for membership in the Club, the seller of such Lot shall, by written notice to the Association, offer its Lot for sale to the Association on the same terms and conditions which seller had agreed to accept from the prospective purchaser.

**Financial Statement Presentation - 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 street repairs and other capital replacements.

**Cash Equivalents:** The Association considers all highly-liquid investments with a maturity of three months or less to be cash equivalents. The Association has not designated any other assets as cash equivalents in determining the net increase in cash in the statement of cash flows.

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable:** Accounts receivables are stated at full value and are considered fully collectible. Bad debts are recorded using the direct write-off method when management believes an account is uncollectible.

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

**Property:** The Association capitalizes all property and equipment to which it has title or other evidence of ownership. Property is recorded at cost. The cost of maintenance and repairs are charged to expense and significant renewals and betterments are capitalized.

**Depreciation:** Capitalized common property is depreciated over estimated useful lives of 3 to 15 years using straight-line and accelerated methods. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations. Depreciation expense for the years ended June 30, 2015 and 2014 was \$46,938 and \$39,682, respectively.

**Revenue Recognition:** Annual lot dues and lot maintenance revenues billed in advance are recorded as deferred revenue and are recognized as revenues in the periods to which they apply. Related party reimbursement revenues are recognized at the time related expenses are incurred. Real estate rental and construction permit fee revenues are recognized in the period incurred. Percentage rent and escrow transfer fees revenues are recognized when the related homes are sold.

**Accounting Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2. CERTIFICATES OF DEPOSIT**

The Association invests funds based on an approved investment policy instituted by the Board of Directors. The general policy is purchase certificates of deposits with varying terms and maturity dates. The maturity dates will coincide with projected future cash requirements to fund capital improvements.

Interest income earned from certificates of deposit is included as interest income on the statement of revenues and expenses. No capital gain or loss was recognized at the time of redemption of any certificates of deposit.

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

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**NOTE 3. CONCENTRATION OF CREDIT RISK**

As discussed in Note 1, the primary activity of the Association is the management of common areas within the Eldorado community, which creates a condition of economic dependency based on the continued viability of Eldorado Country Club.

Financial instruments that potentially subject the Association to concentrations of credit risk consist primarily of cash and cash equivalents.

The Association maintains its cash and cash equivalents with high credit quality financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures interest bearing and non-interest bearing accounts up to \$250,000. As of June 30, 2015 the balances were within FDIC insured limits; however, periodically during the year, the Association maintained deposits in excess of insured amounts. On a regular basis, the Association's policy is to review the financial strength of the financial institution to ensure financial stability and credit quality.

**NOTE 4. RENTAL INCOME**

On March 29, 1984, the Association acquired (at a cost of \$75,000) all of the rights, title and interest of a lease between Eldorado Country Club and the Estate of Robert P. McCulloch relating to real estate office occupancy and usage. The annual ground lease payment from the Association to Eldorado Country Club is \$10.

On May 10, 2010, the Association entered into a sub-lease agreement with Morton & Murphy, Premier Real Estate Brokers, Inc. (a California S Corporation) for a term of 3 years. On May 14, 2013, the term of the sub-lease agreement was extended through January 31, 2014. On January 16, 2014, the Association renewed the lease a subsequent month-to-month provision.

The sub-lease agreement provides for a Base Rent \$2,000 per month with a month-to-month provision. In addition to the Base Rent, the sub-lessee is required to pay the Association a Percentage Rent, which is based upon a percentage of gross receipts attributable to property sold by the sub-lessee from the real estate office located on the premises of Eldorado Country Club.

Total rental income, including percentage rent, for the years ended June 30, 2015 and 2014 was \$174,835 and \$312,406, respectively.

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

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**NOTE 5. LONG-TERM COMMITMENTS**

On May 11, 2014, the Association entered into a new contract with Time Warner Cable, for bundled Multi-Channel Video Service (Cable) and High Speed Data service, beginning October 1, 2014. The new contract is for a term of three years and is renewable in one-year increments at the end of the term. Cable and High Speed Data services will be charged at a rate of \$72.00 per month per homeowner. Annual increases will be limited to \$1.00 per unit per year beginning October 1, 2015.

Future estimated annual payments over the life of the contract are as follows:

Year Ending June 30,	
2016	\$ 184,032
2017	<u>46,008</u>
Total	<u>\$ 230,040</u>

**NOTE 6. RELATED PARTY TRANSACTIONS**

**Services Provided and Cost Sharing:** The Association, Eldorado Cottage Owners Association (ECOA) and Eldorado Country Club (ECC) (the Club) have a comprehensive Master Agreement, which outlines operational and financial arrangements between the three entities. The Master agreement was effective April 1, 2010 and has a term of five years, with automatic renewal for an additional five years. Services provided by the Club include gardening services, security services, and management, accounting and payroll services. The Association utilizes the gardening staff provided by the Club, and other resources to maintain all common areas within the community. As costs are incurred for these services, the Club and the Association bill the other entities for their portion of these costs.

**ECC Gardening Services:** Eldorado Country Club is the legal employer of all employees used by the Association, Eldorado Cottage Owners Association and the Club. Based on this arrangement, Eldorado Country Club pays all wages, payroll taxes and other benefits on behalf of the Eldorado Property Owners Association. On a semimonthly basis, Eldorado Property Owners Association reimburses Eldorado Country Club for these costs.

**ECC Security Services:** The Association provides security services on a 24-hour, seven days a week basis, for all property owners via the Club's security department. On a semi-annual basis, the Club bills the Association for the estimated cost of security. The Association, in turn, bills each lot owner for their respective share of their prorated cost of security. These costs include the Association's share of the security department's salaries, wages, payroll taxes, prorated security asset charges and other operating expenses.

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

**NOTE 6. RELATED PARTY TRANSACTIONS (Continued)**

**ECC Management and Accounting Services:** The Association pays a monthly fee for management services of \$2,643 and accounting and payroll services of \$3,966. These fees are subject to possible increases based on the Consumer Price Index with a limit of 5% per year.

**ECC Golf Course Maintenance Building Usage:** The Association pays a monthly fee for space usage/equipment storage of \$969 at the Club's golf course maintenance building.

**Services Provided by the Association:** The Association utilizes the gardening staff provided by the Club and other resources to maintain all common areas within the Eldorado community. These areas include streets, streetlights, common landscaped areas, the dog park area and street medians. Pursuant to the Master Agreement, the parties share these maintenance costs based on the following percentages: EPOA 66%, ECOA 4%, and the Club 30%.

Shared maintenance for the year ended June 30,	2015	2014
Eldorado Country Club – shared maintenance	\$ 120,110	\$ 127,877
Eldorado Cottage Owners Association – shared maintenance	<u>15,546</u>	<u>16,134</u>
	<u>\$ 135,656</u>	<u>\$ 144,011</u>
As of June 30, the Association had receivables due from ECOA in the amounts of:		
ECOA Shared Costs	\$ 468	\$ 1,841
EPOA Common Area	<u>--</u>	<u>2,636</u>
	<u>\$ 468</u>	<u>\$ 4,477</u>

Services Provided by the Club, to the EPOA, for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Annual Security Services	<u>\$ 494,648</u>	<u>\$ 511,543</u>
Annual Management Services	<u>\$ 33,860</u>	<u>\$ 33,676</u>
Annual Accounting services	<u>\$ 50,710</u>	<u>\$ 50,434</u>
Annual Golf Course Maintenance Building Usage	<u>\$ 11,628</u>	<u>\$ 11,628</u>
As of June 30, the Association had receivables due from (owed to) the Club in the amounts of:		
EPOA Common Area (Gardening Labor and Other)	<u>\$ 3,514</u>	<u>\$ 20,678</u>

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
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Notes to Financial Statements  
June 30, 2015 and 2014

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**NOTE 7. INCOME TAXES**

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings and rental income, at regular federal and state corporate rates. The Association has made this annual election, to be taxed as a regular corporation, in order to minimize its tax obligation. All income taxes are considered current expenses.

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. For the Association deferred taxes are due to using different depreciation methods for financial reporting purposes and tax reporting purposes.

The Association's policy is to recognize tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of June 30, 2015, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. As of June 30, 2015, the Association's annual tax filings for the prior three and four years are open for audit by Federal and state tax agencies respectively.

For the years ended June 30, 2015 and 2014, the Association was taxed as a regular corporation. Income tax expense consists of the following:

	Year ended June 30,	
	2015	2014
Federal	\$ 20,000	\$ 48,399
State	<u>14,249</u>	<u>11,410</u>
	<u>\$ 34,249</u>	<u>\$ 59,809</u>

**NOTE 8. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The changes had no effect on the total fund balance as previously reported.

**NOTE 9. SUBSEQUENT EVENTS**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 13, 2015, the date that the financial statements were available to be issued.

## Supplementary Information

**ELDORADO PROPERTY OWNERS ASSOCIATION**  
**(A California Nonprofit Corporation)**

Future Major Repairs and Replacements (Unaudited)  
June 30, 2015

**REPLACEMENT FUND AND FUNDING OF THE REPLACEMENT FUND**

Replacement reserves are estimated amounts for replacement of major assets of the Association. Reserving provides a secure, planned financial base to address major cost emergencies and to provide replacement of capital assets. A reserve fund acts to stabilize the assets of the community and member assessments, and buttresses the Association's ability to execute its various responsibilities.

As of July 1, 2008, the Association, in order to make its operations less dependent on non-member income, made the decision to allocate 100% of dues income to the Operating Fund while allocating 100% of the Percentage Rent received under the sub-lease agreement with Morton & Murphy (see Note 4) to the Replacement Fund. Homeowners who undertake to construct or remodel their homes are charged an amount equal to 100% of any construction permit fees charged the homeowner by the City of Indian Wells. For the year ending June 30, 2016, the Association has budgeted percentage rent and construction permit fees of \$180,000. Such revenues and fees collected by the Association will be allocated to the Replacement Fund.

The Replacement Fund as of June 30, 2015 and 2014 had accumulated cash and marketable securities in the amount of \$1,581,714 and \$1,365,814, respectively. These funds are held in separate investment accounts and are not available for operating purposes.

The Association contracted for and obtained a reserve study, including site inspection, in August 2014. The reserves are approximately 60% funded and based on the reserve study defined the funding as "Fairly Funded". The unfunded reserves represent a deficit in reserves of approximately \$1,066,000. The estimate for replacement reserves has been prepared using the same sharing percentages as outlined in the Master Agreement.

	Average Estimated Useful Lives (Years)	Average Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs*	Estimate of Required Reserves at June 30, 2015**
Landscaping Equipment	5-30	0-11	\$ 161,105	\$ 116,426
Streets	20-25	0-19	1,151,527	1,178,995
Security	5-25	0-9	796,243	576,164
Street Lights	15-25	0-23	297,502	82,986
Landscaping	10-30	4-12	691,641	504,617
Real Estate Office	10-25	5-19	215,185	62,510
Contingency (5%)				<u>126,085</u>
Total Required Reserves			<u>\$ 3,313,203</u>	2,647,783
Current Reserves - Cash and Cash Equivalents				<u>1,581,714</u>
Reserve Deficit				<u>\$ (1,066,069)</u>

\* Estimated Current Replacement Cost – Total cost to replace or repair component in today's dollars.

\*\* Estimate of Required Reserves – The amount that should have been saved during the life of the component as of the end of the fiscal year.