

ELDORADO PROPERTY OWNERS ASSOCIATION

INDIAN WELLS, CALIFORNIA

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2020

WITH COMPARATIVE TOTALS FOR JUNE 30, 2019

ELDORADO PROPERTY OWNERS ASSOCIATION

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JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statement of Eldorado Property Owners Association (a California nonprofit corporation) (the Association), which comprise of the balance sheet as of June 30, 2020, 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 Statement

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 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 risk 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

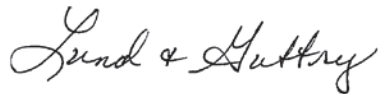
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2020, and the results of its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Eldorado Property Owners Association June 30, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 12, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent in all material respects, with the audited financial statement from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements on page 13 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.



September 18, 2020

ELDORADO PROPERTY OWNERS ASSOCIATION
BALANCE SHEET
JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2019)

ASSETS

	2020			2019
	Operating Fund	Replacement Fund	Total	(Memorandum Only) Total
CURRENT ASSETS				
Cash	\$ 153,238	\$ 216,746	\$ 369,984	\$ 334,086
Investments	921,843	1,619,965	2,541,808	2,459,588
Accounts receivable (net of allowance for doubtful accounts of \$0 and \$385,000 for 2020 and 2019 respectively)	237,542	-	237,542	(2,619)
Due from related parties	1,664	-	1,664	470
Cash - held for related parties (Note 7)	225,000	-	225,000	-
Prepaid expenses	10,857	-	10,857	9,381
Prepaid income tax	-	7,544	7,544	49,781
 Total current assets	 1,550,144	 1,844,255	 3,394,399	 2,850,687
 Property and equipment				
Operating equipment	278,330	-	278,330	278,330
Security equipment	73,470	-	73,470	73,470
Street lights	266,601	-	266,601	266,601
	618,401	-	618,401	618,401
Less accumulated depreciation	(531,621)	-	(531,621)	(445,415)
 Total property and equipment	 86,780	 -	 86,780	 172,986
TOTAL ASSETS	\$ 1,636,924	\$ 1,844,255	\$ 3,481,179	\$ 3,023,673

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 16,053	21,986	\$ 38,039	\$ 2,868
Due to related party, net - ECC (Note 7)	175,516	-	175,516	69,940
Due to related party - ECOA (Note 7)	25,000	-	25,000	-
Deferred dues and maintenance	539,130	-	539,130	262,264
Deferred cable charges	63,825	-	63,825	65,273
Refundable construction deposits	20,000	-	20,000	10,000
 Total current liabilities	 839,524	 21,986	 861,510	 410,345
 Commitments (Note 6)				
FUND BALANCES	 797,400	 1,822,269	 2,619,669	 2,613,328
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,636,924	\$ 1,844,255	\$ 3,481,179	\$ 3,023,673

(The accompanying notes are an integral part of these financial statements)

ELDORADO PROPERTY OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020			2019
	Operating Fund	Replacement Fund	Total	(Memorandum Only) Total
REVENUES				
Annual lot dues	\$ 514,259	\$ -	\$ 514,259	\$ 414,304
Rental income and commission income	-	79,570	79,570	164,663
Escrow transfer fees	-	6,000	6,000	10,500
Construction, permit, and plan check fees	21,000	5,827	26,827	205,240
Lot maintenance	7,196	-	7,196	8,819
Investment income	9,702	30,122	39,824	50,579
Miscellaneous income (expense)	(663)	-	(663)	(1,611)
Security dues	495,126	-	495,126	521,572
Cable television fees	129,098	-	129,098	128,472
ECC shared maintenance costs	122,046	-	122,046	103,543
ECOA shared maintenance costs	16,273	-	16,273	13,806
Total revenues	1,314,037	121,519	1,435,556	1,619,887
EXPENSES				
Maintenance				
ECC gardening services	258,557	-	258,557	194,065
Equipment	-	13,834	13,834	156,105
Repairs and maintenance - landscaping	56,335	-	56,335	56,127
Repairs and maintenance - other	2,028	13,903	15,931	17,887
Repairs and maintenance - streets	23,101	43,885	66,986	23,633
Storm damage	-	-	-	7,678
Services				
ECC accounting and payroll	56,016	-	56,016	56,016
ECC management service	37,332	-	37,332	37,332
Professional fees	46,283	-	46,283	36,236
Insurance	14,799	-	14,799	13,159
Contract services	11,098	-	11,098	13,149
Other				
Utilities	51,427	-	51,427	52,845
Maintenance facility rental	11,628	-	11,628	11,628
Office supplies cable television fees	10,607	-	10,607	9,784
Supplies and small tools	1,021	-	1,021	2,059
Equipment rental	2,259	-	2,259	1,089
Uniforms	3,075	-	3,075	2,423
Total expenses	585,566	71,622	657,188	691,215
OTHER EXPENSES				
Depreciation	86,206	-	86,206	92,386
Provision for doubtful accounts	22,090	-	22,090	201,000
Security services	505,134	-	505,134	521,572
Cable television expense	130,804	-	130,804	125,289
Administrative bonus	-	-	-	11,488
Income taxes	-	27,793	27,793	66,018
Total other expenses	744,234	27,793	772,027	1,017,753
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(15,763)	22,104	6,341	(89,081)
FUND BALANCES BEGINNING OF THE YEAR	813,163	1,800,165	2,613,328	2,702,409
FUND BALANCE END OF YEAR	\$ 797,400	\$ 1,822,269	\$ 2,619,669	\$ 2,613,328

(The accompanying notes are an integral part of these financial statements)

ELDORADO PROPERTY OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020		2019
	Operating Fund	Replacement Fund	(Memorandum Only) Total
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficiency) excess of revenues over expenses	\$ (15,763)	\$ 22,104	\$ 6,341
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	86,206	-	86,206
Unrealized (gain) loss on investments	(6,886)	-	(6,886)
Increase (decrease) in assets			
Accounts receivable	(240,161)	-	(240,161)
Prepaid expenses	(1,476)	-	(1,476)
Prepaid income tax	-	42,237	42,237
Cash held for related parties	(225,000)	-	(225,000)
Accounts payable and accrued expenses	13,185	21,986	35,171
Due to related parties - ECC	105,576	-	105,576
Due to related parties - ECOA	25,470	-	25,470
Deferred income	275,418	-	275,418
Refundable construction deposits	10,000	-	10,000
Net cash flows provided by operating activities	26,569	86,327	112,896
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments activity, net	(196,381)	119,383	(76,998)
Net cash flows (used) provided by investing activities	(196,381)	119,383	(76,998)
NET (DECREASE) INCREASE IN CASH	(169,812)	205,710	35,898
CASH AT BEGINNING OF YEAR	323,050	11,036	334,086
CASH AT END OF YEAR	\$ 153,238	\$ 216,746	\$ 334,086
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid for income taxes			\$ 6,491

(The accompanying notes are an integral part of these financial statements)

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

1. ORGANIZATION AND NATURE OF ACTIVITIES

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 242 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 the Amended and Restated Declaration of Conditions and Restrictions (CC&R's) recorded February 13, 2020, 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 Club, offer its lot for sale to the Club on the same terms and conditions which seller had agreed to accept from the prospective purchaser.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investments

As of June 30, 2020, and 2019, short-term investments consist of investments in certificates of deposit and US T-Bills. The Association reports the investments at fair value. Unrealized gains and losses and interest income earned from certificates of deposit and US T-Bills is included as investment income on the statements of revenues and expenses. No capital gain or loss was recognized at the time of redemption of any certificates of deposit or US T-Bills.

Accounts Receivable

The Association uses the allowance method to estimate uncollectible accounts. For the year ended June 30, 2020 and 2019 the Association deemed certain accounts to be uncollectible and recorded an appropriate allowance for doubtful accounts.

Interest Income

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

Property and Equipment

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. During the year ended June 30, 2020 the Association implemented a new policy to only capitalize new assets which have not previously been included in the reserve funding calculation. Reserve replacement purchases will now be expensed in the year in which they are purchased. Assets purchased under the former treatment will continue to be depreciated until disposed of.

Depreciation

Capitalized common property is depreciated over estimated useful lives of 5 to 10 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.

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.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Memorandum Totals

The financial statements include certain prior-year summarized comparative information in total but no net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the prior year, from which the summarized information was derived.

3. INVESTMENTS

The Association invests funds, in certificates of deposit and US T-Bills, based on an approved investment policy instituted by the Board of Directors. The general policy is to purchase certificates of deposits and US T-Bills with varying terms and maturity dates. The maturity dates will coincide with projected future cash requirements to fund capital improvements. At June 30, 2020 and 2019 the Association's investments consisted of certificates of deposit and US T-Bills totaling \$2,541,808 and \$2,459,588, respectively. The investments are stated at fair value, using level I inputs, based on quoted market prices. The cost basis of the investments at June 30, 2020 and 2019 were \$2,534,922 and \$2,449,939, respectively, resulting in an unrealized gain of \$6,886 and \$9,649, respectively, which is included in the statement of activities in investment income.

4. 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 (the Club).

The Association maintains its cash and cash equivalents with two financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures interest bearing and non-interest-bearing accounts up to \$250,000. 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. The Association has not experienced any losses on any deposits and does not anticipate any losses as a result of the excess balance.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

5. RENTAL AND COMMISSION INCOME

On March 29, 1984, the Association acquired (at a cost of \$75,000) all the rights, title, and interest of a lease between the 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 the 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 January 16, 2014, the Association renewed the lease on a subsequent month-to-month provision. In September 2018 this agreement was terminated.

On October 1, 2018, the Association entered into a sub-lease agreement with Bennion Deville Homes/Encore Premier Group for a term of 3 years which shall automatically renew for one term following the initial term of the lease.

Each sub-lease agreement provides for base rent of \$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 the Club.

Total rental and commission income, for the years ended June 30, 2020 and 2019 was \$79,570 and \$164,663, respectively.

6. COMMITMENTS

In 2014, the Association entered into an Installation and Service Agreement (the Agreement) with Spectrum for bundled multi-channel video service (cable television) and high-speed data service, effective October 1, 2014. In March 2017 the Agreement was extended to October 1, 2020. Under the terms of the extended Agreement, effective October 1, 2017, each homeowner will be charged at a rate of \$45 per month per unit. Annual increases are limited to 5% per year beginning January 1, 2018. The Agreement covers 215 units.

Future estimated payments over the remaining life of the Agreement are \$32,975, as the agreement expires September 30, 2020.

7. RELATED PARTY TRANSACTIONS

Effective April 1, 2010, the Association, ECC, and ECOA entered into a comprehensive Master Agreement (the Agreement) which clarified many of the operational and financial arrangements between the three entities. The Agreement has a five-year term with an automatic renewal for an additional five years. Pursuant to the Agreement, ECC bills each association for their share of security expenses. Pursuant to the Agreement, representatives from the Association, ECC, and ECOA review, modify, and approve the annual operating and capital budgets for security. For the fiscal years ended June 30, 2020 and 2019, total operating costs related to security services provided by ECC were \$505,134 and \$521,572 respectively.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

7. RELATED PARTY TRANSACTIONS (continued)

The three parties also share in the costs of maintaining common areas and common area equipment based on the following cost allocation breakdown:

EPOA	66%
ECC	30%
ECOA	4%

The Association supervises the maintenance of streets, streetlights and common area landscaping within the Eldorado community. The Association is paid (by ECC and ECOA) for these costs in accordance with the terms of the Agreement for ECC's and ECOA's portion of these costs.

Total fees (income to the Association) related to shared maintenance for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Shared maintenance - ECC	\$ 122,046	\$ 103,543
Shared maintenance - ECOA	<u>16,273</u>	<u>13,806</u>
	<u>\$ 138,318</u>	<u>\$ 117,349</u>

As of June 30, 2020 and 2019, the Association had amounts receivable/(payable) from ECOA of (\$23,336) and \$470, respectively.

The Association is charged a monthly fee for accounting and management services provided by ECC. These services are subject to annual increases based on the Consumer Price Index, limited to 5% per year.

Total fees paid by the Association to ECC related to accounting, management services and golf course maintenance building usage for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Accounting fees	\$ 56,016	\$ 56,016
Management fees	37,332	37,332
Golf course maintenance building usage fee	<u>11,628</u>	<u>11,628</u>
	<u>\$ 104,976</u>	<u>\$ 104,976</u>

ECC is the legal employer for the Association, paying all salaries and benefit costs on behalf of the Association. Each month the Association reimburses ECC for payroll and benefit expenses incurred by the Association. Total amounts reported for employee costs were \$258,557 and \$194,065, respectively.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

7. RELATED PARTY TRANSACTIONS (continued)

Related party payables at June 30 are comprised of the following:

	<u>2020</u>	<u>2019</u>
Payroll, benefit, administrative costs—ECC	\$ 75,516	\$ 69,640
Amounts held on behalf of ECC (see below)	100,000	-
Amounts held on behalf of ECOA (see below)	<u>25,000</u>	<u>-</u>
	<u>\$ 200,516</u>	<u>\$ 69,940</u>

During January 2020, the Association's Board of Directors along with the Board of Directors for ECC and ECOA agreed to establish a separate entity that would assist in exercising the right of first refusal that ECC has over the EPOA and ECOA homes that are being sold. Subsequent to year end, the ECOA decided not to participate in the formation of this new entity and excluded from the table below. This separate entity will hold the following amounts for each of the entities to be used in the event the right of first refusal needs to be exercised.

ECC	\$ 100,000
EPOA	<u>100,000</u>
	<u>\$ 200,000</u>

Since the new entity has not been formally established at this time, the Association is holding the amounts listed above. The amounts will remain on each of the two entity's statement of financial position as an asset until the right of first refusal is exercised in the future. As of June 30, 2020 ECOA, had remitted an amount of \$25,000 related to the initial agreement above which will be returned by the EPOA. As of June 30, 2020, the balance of cash held for the new entity is \$225,000 as reflected on the balance sheet.

8. INCOME TAXES

The Association may be taxed either as a homeowners' association or as a regular corporation. For the years ended June 30, 2020 and 2019, for federal purposes, the Association elected to file as a homeowners' association, and file Form 1120-H. As a homeowners' association, membership income is exempt from taxation, and the Association is taxed only on income not related to membership dues and assessments, such as interest income and rental income less related expenses.

For California purposes, the Association is does not have tax exempt status and is taxed on income not related to membership dues and assessments, and excess member income generated each year. The Board may make an annual election under Rev Proc 70-604 to defer income and taxes to the following year.

For the year ended June 30, 2020, the federal and California income tax expense was \$20,897 and \$6,896. For the year ended June 30, 2019, the federal and California income tax expense was \$40,394, and \$25,624.

ELDORADO PROPERTY OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

8. INCOME TAXES (continued)

For the year ended June 30, 2020 and 2019, the Association had prepaid income taxes of \$7,544 and \$49,781, respectively.

For the year ended June 30, 2020 the Association had income taxes payable of \$21,986. There was no income tax payable for the year ended June 30, 2019.

The Association's annual tax returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after filed.

9. FUTURE MAJOR REPAIRS AND IMPROVEMENTS

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. The Board of Directors had a study conducted in May 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from reserve study consultants. Actual expenditures, however, may vary from the estimated future expenditures 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.

10. UNCERTAINTIES

The COVID-19 outbreak in the United States has caused business disruption through mandated closures of non-essential businesses. The related financial impact on the Association and the duration cannot be reasonably estimated at this time.

11. SUBSEQUENT EVENTS

The Association has evaluated all potential subsequent events as of September 18, 2020, when the financial statements were authorized and available to be issued. No subsequent events or transactions, other than noted below, were identified after June 30, 2020 or as of September 18, 2020 that require disclosure to the financial statements.

In August 2020, ECOA decided not to participate in the formation of the new entity discussed in Note 7. Amounts held by the Association will be returned to ECOA.

SUPPLEMENTAL INFORMATION

ELDORADO PROPERTY OWNERS ASSOCIATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

JUNE 30, 2020

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 enables 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 Bennion Deville (see Note 5) 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, 2020, the Association budgeted base and percentage rent, transfer fees and construction permit fees of \$91,397. Such revenues and fees collected by the Association will be allocated to the Replacement Fund.

The Replacement Fund as of June 30, 2020 and 2019 had accumulated cash balances in the amounts of \$216,746 and \$11,036, respectively. These funds are held in separate bank accounts and are not available for operating purposes.

The Association contracted for and obtained a reserve study, including site inspection, in May 2020. The reserves are approximately 67% funded. The unfunded reserves represent a deficit in reserves of approximately \$903,947. 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, 2020**
Landscaping Equipment	8-30	1-9	\$ 213,300	\$ 158,006
Streets	4-30	0-19	2,020,734	1,133,103
Security	8-25	0-9	498,457	352,522
Street Lights	5-25	2-24	342,734	87,044
Landscaping	10-20	0-18	758,500	712,850
Flood Channel	5-25	2-8	259,000	151,133
Vehicles	5-7	1-4	60,000	40,571
Real Estate Office	10-25	2-15	221,160	90,987
Total Required Reserves			<u>\$ 4,373,885</u>	<u>2,726,216</u>
Reserve fund balance				<u>1,822,269</u>
Reserves Deficit				<u>\$ (903,947)</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.