

DATE: July 15, 2016

TO: All Homeowners
Cypress Home Owners Association

FROM: The Board of Directors
Cypress Home Owners Association

RE: Annual Audit as of December 31, 2015

In accordance with California Civil Code Section 5305, the Cypress Home Owners Association Board of Directors is submitting to the Association's Homeowners a copy of the Financial Audit for the fiscal year ending December 31, 2015. The Association's independent auditor, VanDerPol & Company, performed this Annual Audit. California Law requires that a copy of the Audit be distributed to the membership on an annual basis.

The Audit entails a review of all financial documents, accounting procedures and practices to provide a statement for the Cypress Home Owners Association's financial position as of December 31, 2015.

Please review the enclosed information. Homeowners are encouraged to retain the Audit in your permanent records for Cypress Home Owners Association.



CYPRESS HOME OWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

CYPRESS HOME OWNERS ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Cypress Home Owners Association

Report on the Financial Statements

We have audited the accompanying financial statements of Cypress Home Owners Association, which comprise the balance sheet as of December 31, 2015, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cypress Home Owners Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Cypress Home Owners Association's December 31, 2014 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 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 supplementary information on future major repairs and replacements on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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, 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.

Van Der Pol & Co.

VANDERPOL & COMPANY, A PAC

March 22, 2016

CYPRESS HOME OWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

	<u>2015</u>			<u>2014</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents [Note 7]	\$ 256,279	\$ 391,671	\$ 647,950	\$ 582,377
Member assessments receivable, less allowance for doubtful collections of \$82,000 at 12/31/15 and \$71,700 at 12/31/14	12,794	--	12,794	10,364
Investments [Note 8]	--	375,000	375,000	250,000
Accrued interest receivable	--	419	419	--
Prepaid insurance	62,210	--	62,210	74,511
Prepaid taxes	--	--	--	224
Due (to)/from fund	3,687	(3,687)	--	--
Total Assets	<u>\$ 334,970</u>	<u>\$ 763,403</u>	<u>\$ 1,098,373</u>	<u>\$ 917,476</u>
LIABILITIES				
Accounts payable	\$ 21,543	\$ --	\$ 21,543	\$ 8,579
Prepaid assessments	18,464	--	18,464	19,546
Income taxes payable	683	--	683	--
Total Liabilities	40,690	--	40,690	28,125
FUND BALANCES	<u>294,280</u>	<u>763,403</u>	<u>1,057,683</u>	<u>889,351</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 334,970</u>	<u>\$ 763,403</u>	<u>\$ 1,098,373</u>	<u>\$ 917,476</u>

See independent auditors' report and accompanying notes to financial statements.

CYPRESS HOME OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 542,355	\$ 312,645	\$ 855,000	\$ 855,000
Interest	--	4,051	4,051	1,605
Other income	14,168	--	14,168	11,685
Total Revenues	<u>556,523</u>	<u>316,696</u>	<u>873,219</u>	<u>868,290</u>
EXPENSES				
Utilities:				
Electricity	13,153	--	13,153	26,486
Water	55,855	--	55,855	70,387
Gas	1,631	--	1,631	535
Refuse	54,860	--	54,860	63,516
Maintenance:				
Landscape maintenance and supplies	91,954	--	91,954	87,867
Irrigation repairs	3,270	--	3,270	1,545
Tree maintenance	10,730	--	10,730	2,080
Lighting maintenance and supplies	1,425	--	1,425	--
Pool service, supplies and repairs	17,526	--	17,526	22,747
Janitorial service and supplies	6,180	--	6,180	5,458
Pest control	4,893	--	4,893	5,118
Roof repairs	8,216	--	8,216	2,160
Plumbing repairs	21,746	--	21,746	3,356
Painting	15,656	--	15,656	5,715
Other common area maintenance	10,037	--	10,037	4,370
Replacement fund [Note 9]	--	167,064	167,064	239,464
Administrative:				
Insurance	155,031	--	155,031	139,833
Management fees	41,484	--	41,484	41,484
Professional fees	3,131	--	3,131	6,490
Income taxes [Note 4]	1,182	--	1,182	333
Postage and printing expense	6,012	--	6,012	1,543
Other administrative expenses	8,801	150	8,951	10,275
Bad debt expense/(recovery)	4,900	--	4,900	(410)
Total Expenses	<u>537,673</u>	<u>167,214</u>	<u>704,887</u>	<u>740,352</u>
EXCESS OF REVENUES OVER EXPENSES	18,850	149,482	168,332	127,938
Beginning Fund Balances	<u>275,430</u>	<u>613,921</u>	<u>889,351</u>	<u>761,413</u>
Ending Fund Balances	<u>\$ 294,280</u>	<u>\$ 763,403</u>	<u>\$ 1,057,683</u>	<u>\$ 889,351</u>

See independent auditors' report and accompanying notes to financial statements.

CYPRESS HOME OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014)

	<u>2015</u>			<u>2014</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Excess of revenues over expenses:	\$ 18,850	\$ 149,482	\$ 168,332	\$ 127,938
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:				
Increase in member assessments receivable	(2,430)	--	(2,430)	(33)
(Increase)/decrease in accrued interest receivable	--	(419)	(419)	27
Decrease in prepaid insurance	12,301	--	12,301	1,271
(Increase)/decrease in prepaid taxes	224	--	224	(17)
Increase/(decrease) in accounts payable	12,964	--	12,964	(14,818)
Increase/(decrease) in prepaid assessments	(1,082)	--	(1,082)	7,613
Increase in income taxes payable	683	--	683	--
Change in due to/(from) fund	(3,687)	3,687	--	--
Net cash provided by operating activities	<u>37,823</u>	<u>152,750</u>	<u>190,573</u>	<u>121,981</u>
Cash provided/(used) by investing activities:				
Acquisition of certificates of deposit	--	(375,000)	(375,000)	(250,000)
Maturity of certificates of deposit	--	250,000	250,000	301,189
Net cash flows from investing activities	<u>--</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>51,189</u>
Net increase in cash	37,823	27,750	65,573	173,170
Cash at beginning of year	<u>218,456</u>	<u>363,921</u>	<u>582,377</u>	<u>409,207</u>
Cash at end of year	<u>\$ 256,279</u>	<u>\$ 391,671</u>	<u>\$ 647,950</u>	<u>\$ 582,377</u>

See independent auditors' report and accompanying notes to financial statements.

CYPRESS HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. ORGANIZATION

Cypress Home Owners Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in February 1965. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 250 residential units and is located in Cypress, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained the accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation - In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either operating or replacement funds in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended December 31, 2015, there were no significant personal property additions.

(c) Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into two categories, the operating fund and the replacement fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

(d) Investment Income - The Board's policy is to allocate interest earned on replacement fund cash and investment accounts to the replacement fund, and to pay the related income taxes out of the operating fund.

(e) Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(f) Subsequent Events - Subsequent events have been evaluated through March 22, 2016, which is the date the financial statements were available to be issued.

NOTE 3. COMPARATIVE FINANCIAL STATEMENTS

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

CYPRESS HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 4. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a homeowners association [under Internal Revenue Code Section 528]. For the year ended December 31, 2015, the Association elected to file as a homeowners association, where generally the association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For California purposes, the Association also qualifies for tax exempt status as a homeowners association and pays a tax of 8.84% on income not related to membership dues and assessments. For the year ended December 31, 2015, the federal and California income tax expense was \$886 and \$296, respectively.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

NOTE 5. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at December 31, 2015 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner. At December 31, 2015, the Association has recorded an allowance for uncollectible assessments of \$82,000. This allowance represents an estimated amount which was calculated using historical collection information.

For the year ended December 31, 2015, the Association's monthly assessment was \$285 per unit. For 2016, the monthly assessment is budgeted to remain at \$285 per unit.

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

CYPRESS HOME OWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2015

NOTE 6. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

An independent study of the Association's replacement funding program which was conducted in October 2015 and recommends a contribution to the replacement fund of approximately \$331,146 (\$110.38 per unit per month) for 2016. The study's recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the replacement funds. For the year ended December 31, 2015, the Association funded \$312,645 from assessments to the replacement fund. The 2016 budget includes the study's recommended amount for replacement funding. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At December 31, 2015 and 2014, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2015</u>	<u>2014</u>
City National Bank - checking	<u>\$ 256,279</u>	<u>\$ 218,456</u>
 <u>Replacement Fund:</u>		
Morgan Stanley - money funds	\$ 296,144	\$ 271,880
State Farm Bank - money market	82,003	81,585
City National Bank - money market	<u>13,524</u>	<u>10,456</u>
Total Cash - Replacement Fund	<u>\$ 391,671</u>	<u>\$ 363,921</u>

CYPRESS HOME OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 8. INVESTMENTS

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. The investments are considered to be held to maturity and are carried at cost, which approximates the fair value.

At December 31, 2015 and 2014, the Association's investment is as follows:

<u>Replacement Fund:</u>	<u>2015</u>	<u>2014</u>
Goldman Sachs Bank - 1.05%, 1/3/17	\$ 125,000	\$ 125,000
Ally Bank - 1.50%, 1/2/18	125,000	125,000
Goldman Sachs Bank- 0.45%, 4/8/16	<u>125,000</u>	<u>--</u>
Total Investments - Replacement Fund	<u>\$ 375,000</u>	<u>\$ 250,000</u>

NOTE 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes amounted to \$275 for the year ended December 31, 2015. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 10. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Clubhouse	\$ 56,780	\$ 22,424
Fences/gates	42,094	3,335
Carports	25,034	3,463
Tot lot	23,788	1,896
Signs	9,637	140
Asphalt/concrete work	2,918	350
Painting	2,557	--
Pool/spa repairs	2,478	840
Irrigation	1,778	1,123
Roof repairs	<u>--</u>	<u>205,893</u>
Total	<u>\$ 167,064</u>	<u>\$ 239,464</u>

NOTE 11. CONCENTRATION OF RISK

At December 31, 2015, the Association maintained funds at one financial institution whereby the cumulative balances on account exceeded FDIC insurance limits of \$250,000. At December 31, 2015, \$19,803 was exposed to this risk.

CYPRESS HOME OWNERS ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2015
 (UNAUDITED)

An independent reserve study was conducted in October 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 3.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been allocated for future repairs and replacements, earning a yield on investments of 0.7%.

The following table is based on the study and presents significant information about the components of common property.

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2016 <i>Recommended</i> Funding Requirement	Study's <i>Recommended</i> Fund Balance
Painting	1-5 years	\$ 474,418	\$ 126,393	\$ 340,279
Clubhouse appliances	3 years	1,950	178	1,657
Benches	12 years	873	106	175
Door	3-28 years	29,278	1,778	3,577
Clubhouse furniture	4 years	3,714	338	2,972
HVAC - clubhouse	0-16 years	14,338	1,306	8,603
Tot lot equipment	13-17 years	53,999	5,563	7,746
Clubhouse interior	0-19 years	3,548	401	2,623
Signage	19 years	9,925	904	496
Water heaters - clubhouse	8 years	4,103	623	1,368
Fences/gates	2-19 years	54,810	4,992	20,146
Pools/spas	0-14 years	89,681	13,586	50,432
Restoration	0-19 years	236,833	25,188	162,277
Roofs	9-49 years	2,571,457	149,790	741,326
	Total	<u>\$ 3,548,927</u>	<u>\$ 331,146</u>	<u>\$ 1,343,677</u>
				<u>\$ 763,403</u>

Replacement Fund balance at 12/31/15: