



March 29, 2018

Dear Tract 4494 (Arbor Hills) Homeowner:

Enclosed is a copy of the audit prepared by Owens, Moskowitz and Associates, Inc., for the fiscal year ending December 31, 2017. It is a requirement of your CC&R'S and the California Civil Code that the audit be sent to each homeowner annually.

Please retain this with the other permanent records for your home.

Very truly yours,

Board of Directors
Tract 4494 Homeowners Association

**TRACT 4494 HOMEOWNERS ASSOCIATION
(AKA ARBOR HILLS HOMEOWNERS ASSOCIATION)**

Audited Financial Statements

For The Year Ended December 31, 2017

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OWENS, MOSKOWITZ AND ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Tract 4494 Homeowners Association

We have audited the accompanying financial statements of Tract 4494 Homeowners Association, which comprise the balance sheet as of December 31, 2017, and the related statements of revenue and expenses and association funds, 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 Tract 4494 Homeowners Association as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Owens, Moskowitz and Associates, Inc.

Owens, Moskowitz and Associates, Inc.

March 22, 2018

TRACT 4494 HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 56,776	\$ 185,445	\$ 242,221
Short-Term Investments	30,000	260,000	290,000
Assessments Receivable	463	-	463
Interest Receivable	22	211	233
Prepaid Insurance	632	-	632
Total Assets	<u>\$ 87,893</u>	<u>\$ 445,656</u>	<u>\$ 533,549</u>
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	\$ 1,919	\$ -	\$ 1,919
Prepaid Assessments	4,064	-	4,064
Income Taxes Payable	289	-	289
Total Liabilities	6,272	-	6,272
Commitments	-	-	-
Association Funds	<u>81,621</u>	<u>445,656</u>	<u>527,277</u>
Total Liabilities And Association Funds	<u>\$ 87,893</u>	<u>\$ 445,656</u>	<u>\$ 533,549</u>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

TRACT 4494 HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	\$ 113,818	\$ 58,406	\$ 172,224
Interest Income	208	2,379	2,587
Other Income	408	-	408
Total Revenue	114,434	60,785	175,219
EXPENSES			
Landscape Maintenance	42,037	-	42,037
Management Fees	11,136	-	11,136
Administrative	10,514	-	10,514
Legal And Audit	2,418	-	2,418
Insurance	4,031	-	4,031
Pest Control	4,776	-	4,776
Utilities	580	-	580
General Maintenance	1,732	-	1,732
Reserve Study	1,430	-	1,430
Electricity	4,035	-	4,035
Water	20,288	-	20,288
Street Sweeping	5,083	-	5,083
Gate	2,412	-	2,412
Mailboxes	-	3,792	3,792
Income Tax	607	-	607
Total Expenses	111,079	3,792	114,871
Excess of Revenue Over Expenses	3,355	56,993	60,348
Association Funds Balance Beginning of Year	78,266	388,663	466,929
Association Funds Balance End of Year	\$ 81,621	\$ 445,656	\$ 527,277

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

TRACT 4494 HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows From Operating Activities:			
Cash Received From Members	\$ 113,286	\$ 58,406	\$ 171,692
Cash Paid To Suppliers of Goods And Services	(114,912)	(3,792)	(118,704)
Interest Received	186	2,168	2,354
Income Taxes Paid	(496)	-	(496)
Net Cash Provided By (Used In) Operating Activities	(1,936)	56,782	54,846
Cash And Cash Equivalents At Beginning of Year	58,712	128,663	187,375
Cash And Cash Equivalents At End of Year	\$ 56,776	\$ 185,445	\$ 242,221

RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Excess of Revenue Over Expenses	\$ 3,355	\$ 56,993	\$ 60,348
Adjustments To Reconcile Excess of Revenue Over Expenses To Net Cash Provided By Operating Activities:			
Change In Assessments Receivable	(440)	-	(440)
Change In Interest Receivable	(22)	(211)	(233)
Change In Prepaid Insurance	(17)	-	(17)
Change In Accounts Payable	(4,423)	-	(4,423)
Change In Prepaid Assessments	(500)	-	(500)
Change In Income Tax Payable	111	-	111
Net Cash Provided By (Used In) Operating Activities	\$ (1,936)	\$ 56,782	\$ 54,846

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

TRACT 4494 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 NATURE OF ORGANIZATION

Tract 4494 Homeowners Association was incorporated on August 3, 1998, in the state of California and is doing business as Arbor Hills Homeowners Association. It is responsible for the operation and maintenance of the common property within the development, which is located in the city of Newbury Park, California. The development consists of 64 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Tract 4494 Homeowners Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

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. |

Property and Equipment

Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements.

Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

Cash Equivalents and Short-term Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

SEE INDEPENDENT AUDITORS' REPORT

TRACT 4494 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, projected to December 31, 2017, indicates the Association's ideal cash replacement fund balance was \$ 538,967 at that date. The study recommends a 2018 contribution to the replacement fund of \$ 60,240 (\$ 78.44 per owner per month). The 2018 budgeted contribution is \$ 64,440.

The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 INCOME TAXES

The Association is a corporation that is potentially taxable on all of its net income, including unspent member assessments. However, under state and federal filing elections, the Association may choose to be taxed only on its net non-membership income, which includes interest income.

The State of California allows qualifying homeowner associations to file an election to be taxed under special rules. Under this election, income from members (such as assessments) is exempt from taxation.

Federal law offers a similar election, which must be made annually. However, net non-membership income under this election is taxed at a flat rate of 30%. If the Association chooses to file as a regular corporation, it may still exclude from taxation its net membership income by making certain elections. Tax at the regular corporate tax rate is generally lower. Some of these elections, however, have come under IRS attack and certain issues are yet to be clarified. In 2017, the Association filed as an exempt association.

Regardless of how the Association files its taxes, non-membership income (interest) may not be offset with membership expenses (such as common area maintenance costs). That is why the Association's taxable income can be greater than its net income as recorded in the financial statements.

The years open for tax authority examination are 2014 through 2017 for federal purposes and 2013 through 2017 for state purposes.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were:

2017 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 413	\$ 184	\$ 10	\$ 607
Less: Estimated payments	(188)	(130)	-	(318)
Income tax payable	\$ 225	\$ 54	\$ 10	\$ 289

SEE INDEPENDENT AUDITORS' REPORT

TRACT 4494 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)

NOTE 5 CASH AND SHORT-TERM INVESTMENTS

The Association's cash and short-term investment balances as of December 31, 2017, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Union Bank	-	\$ 56,776	-
Union Bank	0.02%	185,445	-
TCM Bank	0.85%	30,000	February 7, 2018
Financial Federal Bank	0.90%	85,000	February 5, 2018
Tristate Capital Bank	1.05%	100,000	May 14, 2018
Tristate Capital Bank	0.90%	75,000	February 12, 2018
Total		\$ 532,221	

NOTE 6 ASSESSMENTS RECEIVABLE

Association members are subject to annual assessments (paid in monthly installments) to fund the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments and other fees due from unit owners. Most owners live within Southern California and their ability to pay would be influenced by the local economy. The Association's CC & R's provide for various collection remedies for delinquent assessments including filing of liens on the owner's unit, foreclosing on the unit owner, and obtaining judgement on other assets of the unit owner.

NOTE 7 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Association uses the allowance method of recording bad debts. This method requires an annual provision for bad debts based on past or industry experience.

NOTE 8 ASSESSMENTS

During 2017, assessments were billed at a rate of \$ 224.25 per unit per month. Effective January 1, 2018, the rate increased to \$ 202.57 per unit per month.

NOTE 9 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 22, 2018, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

OWENS, MOSKOWITZ AND ASSOCIATES, INC.
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Tract 4494 Homeowners Association

Our report on our audit of the basic financial statements of Tract 4494 Homeowners Association for the year ended December 31, 2017 appears on page 3. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Accounting principles generally accepted in the United States of America require that the 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.

Owens, Moskowitz and Associates, Inc.

Owens, Moskowitz and Associates, Inc.

March 22, 2018

TRACT 4494 HOMEOWNERS ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
DECEMBER 31, 2017
(UNAUDITED)

The board of directors contracted an independent consultant who conducted a July 5, 2017 study, projected to December 31, 2017, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 3% and an interest rate of 1%.

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

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	2018 Funding Requirement	Recommended Fund Balances
Asphalt/Concrete	3 to 5 years	\$ 382,600	\$ 22,752	\$ 297,200
Jogging Path	3 years	3,605	552	2,253
Lighting	5 years	2,150	108	1,720
Mailboxes/Plaques	3 years	16,900	1,380	13,520
Gates/Fence/Railing	0 to 8 years	134,915	11,964	100,790
Landscape/Irrigation	0 to 16 years	60,175	5,616	50,252
Painting	0 to 2 years	71,125	17,400	69,475
Signs	4 to 8 years	5,975	468	3,757
		<u>\$ 677,445</u>	<u>\$ 60,240</u>	<u>\$ 538,967</u>

As shown above, the study recommends a replacement fund balance of \$538,967 as of December 31, 2017 and contributions to reserves of \$60,240 during 2018. The Association's replacement fund balance at December 31, 2017 was \$445,656 or 82.69% of the recommended fund balance.