DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

WITH INDEPENDENT AUDITOR'S REPORT

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC.

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ACCOUNTANTS & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors of
Del Mesa Carmel Community Association, Inc.
Carmel, California

Report on the Financial Statements

We have audited the accompanying financial statements of Del Mesa Community Association, Inc. (the Association), a non-profit condominium association, which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balance 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 Del Mesa Community Association, Inc. as of December 31, 2018, 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.

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Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 16 through 21 is presented for purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Future Major Repairs and Replacements

Our audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 6 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is supplementary information required by the Financial Accounting Standards Board, which 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.

OUM & Co. LLP

San Francisco, California
April 29, 2019

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
BALANCE SHEET
DECEMBER 31, 2018

	Operating Fund	Contingency Fund	Replacement Reserve	Insurance Fund	Total 2018
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 740,014	$ 21,315	$ -	$ 793,987	$ 1,555,316
Receivables:					
Assessments - net	102,503	-	-	-	102,503
Other	16,996	-	-	-	16,996
Due from other fund	30,252	-	-		30,252
Inventories:					
Food and beverage	5,937	-	-	-	5,937
Beer and wine	5,902	-	-	-	5,902
Liquor	2,514	-	-	-	2,514
Gasoline	2,318	-	-	-	2,318
Prepaid expenses and other assets	66,756	-	-	-	66,756
Total current assets	973,192	21,315	-	793,987	1,788,494
PROPERTY - Net	194,502	-	-	-	194,502
OTHER ASSETS					
Investments	-	-	1,504,147	-	1,504,147
TOTAL ASSETS	$ 1,167,694	$ 21,315	$ 1,504,147	$ 793,987	$ 3,487,143

See accompanying notes to financial statements.

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
BALANCE SHEET
DECEMBER 31, 2018
(Continued)

	Operating Fund	Contingency Fund	Replacement Reserve	Insurance Fund	Total 2018
LIABILITIES AND FUND BALANCES					
CURRENT LIABILITIES:					
Accounts payable	$ 265,445	$ -	$ -	$ -	$ 265,445
Cash overdraft	-	-	146,078	-	146,078
Due to other fund	-	-	23,252	7,000	30,252
Deferred revenue	2,781	-	-	-	2,781
Accrued expenses	99,441	-	14,973	940,914	1,055,328
Total current liabilities	367,667	-	184,303	947,914	1,499,884
FUND BALANCES/(DEFICI[illegible]					
Operating	[illegible]27	-	-	-	800,027
Contingency	-	21,315	-	-	21,315
Reserved for m[illegible] and replacem[illegible]nts	-	-	1,319,8[illegible]	-	1,319,844
Insurance	-	-		[illegible]927)	(153,927)
Total fund balances/(deficit)	800,027	21,315	1,319,844	(153,927)	1,987,259
[illegible]ES AND FUN[illegible]				[illegible]987	$ 3,487,143

See accompanying notes to financial statements.

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Contingency Fund	Replacement Reserve	Insurance Fund	Total 2018
REVENUES:					
Regular assessments (Note 8)	$ 3,661,628	$ 15,000	263,758	$ -	$ 3,940,386
Utility and cable assessments (Note 8)	942,287	-	-	-	942,287
Interest and dividend income	5,625	-	23,038	13,550	42,213
Insurance recoveries	-	-	-	371,626	371,626
Total revenues	4,609,540	15,000	286,796	385,176	5,296,512
EXPENSES:					
General and administrative	1,352,095	-	-	300	1,352,395
Utilities and services - common areas	1,386,548	-	-	-	1,386,548
Grounds maintenance	694,827	-	-	-	694,827
Facilities maintenance	468,616	-	-	-	468,616
Major repairs and replacements	-	-	1,175,305	-	1,175,305
Repairs to Members' units (Notes 1 and 11)	-	-	-	446,989	446,989
Total expenses	3,902,086	-	1,175,305	447,289	5,524,680
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE OTHER INCOME (EXPENSE)	707,454	15,000	(888,509)	(62,113)	(228,168)
OTHER INCOME (EXPENSE):					
Guest house - net	8,903	-	-	-	8,903
Dining room - net	(183,596)	-	-	-	(183,596)
Miscellaneous income	9,305	-	-	-	9,305
Total other income (expense)	(165,388)	-	-	-	(165,388)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	542,066	15,000	(888,509)	(62,113)	(393,556)
BEGINNING FUND BALANCES - AS REPORTED	173,644	66,315	2,126,859	-	2,366,818
PRIOR PERIOD ADJUSTMENT (NOTE 11)	-	-	105,811	(91,814)	13,997
TRANSFERS	60,000	(60,000)	-	-	-
AUTHORIZED PURCHASES OF PERSONAL PROPERTY	24,317	-	(24,317)	-	-
ENDING FUND BALANCES	$ 800,027	$ 21,315	$ 1,319,844	$ (153,927)	$ 1,987,259

See accompanying notes to financial statements.

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	Operating Fund	Contingency Fund	Replacement Reserve	Insurance Fund	Total 2018
CASH FLOWS FROM OPERATING ACTIVITIES:					
Excess (deficiency) of revenues over expenses	$ 542,066	$ 15,000	$ (888,509)	$ (62,113)	$ (393,556)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Depreciation	39,808	-	-	-	39,808
(Increase) decrease in:					
Receivables:					
Assessments - net	(17,568)	-	-	-	(17,568)
Other	(1,996)	-	-	1,757,775	1,755,779
Due from other fund	395,446	-	-	-	395,446
Inventories	(99)	-	-	-	(99)
Prepaid expenses	45,081	-	-	-	45,081
Increase (decrease) in:					
Accounts payable	98,100	-	10,186	-	108,286
Due to other fund	(540,069)	15,000	129,623	-	(395,446)
Deferred revenue	2,781	-	-	-	2,781
Accrued expenses	(10,909)	-	-	(901,675)	(912,584)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	552,641	30,000	(748,700)	793,987	627,928
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of furniture, fixtures and equipment	(24,317)	-	-	-	(24,317)
Cash overdraft	-	-	146,078	-	146,078
Purchase of investments	-	-	(250,047)		(250,047)
Proceeds from sale and maturity of investments	-	-	491,790	-	491,790
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(24,317)	-	387,821	-	363,504
	$ 528,324	$ 30,000	$ (360,879)	$ 793,987	$ 991,432

See accompanying notes to financial statements.

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

	Operating Fund	Contingency Fund	Replacement Reserve	Insurance Fund	Total 2018
CASH FLOWS FROM FINANCING ACTIVITIES:					
Interfund transfers	$ 84,317	$ (60,000)	$ (24,317)	$ -	$ -
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	84,317	(60,000)	(24,317)	-	-
NET INCREASE (DECREASE) IN CASH	612,641	(30,000)	(385,196)	793,987	991,432
CASH AT BEGINNING OF YEAR - AS REPORTED	127,373	51,315	279,385	-	458,073
PRIOR PERIOD ADJUSTMENT (NOTE 11)	-	-	105,811	-	105,811
CASH AT END OF YEAR	$ 740,014	$ 21,315	$ -	$ 793,987	$ 1,555,316

See accompanying notes to financial statements.

NOTE 1 Organization and Summary of Significant Accounting Policies

Organization - Del Mesa Carmel Community Association, Inc. (the "Association"), is a non-profit condominium association comprised of the owners of the 289 individual units in Carmel, California. The development is 336 acres in size, the units are built on 72 of the acres (number of units and acres unaudited). The Association was organized on November 8, 1967 with the recording of the Declaration of Protective Restrictions at the office of Official Records of Monterey County. The Association derives its authority and responsibilities from this Declaration. The Association was incorporated as a nonprofit mutual benefit corporation on March 1, 1994.

The Association is responsible for the operation and maintenance of the common areas and community facilities of the condominium development and provides services for its residents at cost.

The Board of Directors makes policy decisions and directs the operations of the Association in accordance with the rules set forth in the Declaration of Protective Restrictions and the Bylaws of the Association.

Basis of Accounting - Assets, liabilities, revenues and expenses are recorded on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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.

Contingency Fund - This fund was established by the Board to be utilized during unanticipated cash flow shortages.

Replacement Reserve - This fund is used to accumulate financial resources designated for the replacement of furniture, fixtures and equipment to be used by the Association and future major repairs and replacements to the common area real property.

Insurance Fund – This fund is used to account for expenses and insurance proceeds related to restoration of damaged property pertaining to fire damage sustained by two members' units in 2017.

Budget - The Association adopts a budget annually, which is prepared on the accrual basis of accounting. The budget includes expenses and the means of financing them, and is used for planning purposes.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Association considers cash in the bank and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Investments - Investments consist of certificates of deposit, which are valued at their fair market value. The certificates have various maturities laddered out for use according to a Board adopted asset reserve plan. Unrealized holding gains and losses are excluded from earnings and reported as a net amount in a separate component of fund balance until realized. When an investment is purchased at a discount, the difference between the purchase price and the maturity value is amortized over the life of the investment.

The Association has determined that the securities it invests in are classified as available for sale under generally accepted accounting principles and, therefore, accounted for at fair value.

Assessments Receivable from Owners and Allowance for Doubtful Accounts - Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable from owners are reported net of any allowance for doubtful accounts. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens and foreclosing on units.

The Association calculates an allowance for doubtful accounts based on past experience and an analysis of individual accounts. The allowance as of December 31, 2018 was $26,495.

Inventories - Inventories are recorded at the lower of cost or net realizable value using the first-in, first-out method.

Property -The Association capitalizes all property and equipment to which it has title or other evidence of ownership and that either (a) the Association may dispose of, at the discretion of the Board of Directors, with the Association retaining the proceeds, or (b) the Association uses to generate significant cash flows from members on the basis of usage or from nonmembers. Furniture, fixtures and equipment are recorded at cost, except for donated property, which is recorded at its estimated current fair value at the time it is donated.

It is the policy of the Association to capitalize all property and equipment purchased greater than $2,000 that have an estimated useful life greater than one year. Depreciation is computed using the straight-line method, based on the following estimated useful lives:

Vehicles	3-10	Years
Machinery and equipment	5-15	Years
Office equipment	3-5	Years
Furniture and fixtures	7-20	Years
Buildings and improvements	7-40	Years

Fine Arts inventory is not depreciated, as works of art are not considered depreciable assets. For income tax reporting, the Association uses accelerated methods under the modified accelerated cost recovery system.

Real property and related improvements are not reflected on the Association's financial statements. Those properties are owned jointly by the individual unit owners and not by the Association.

Compensated Absences - The Association has accrued a liability for vacation pay which has been earned but not taken by Association employees.

Revenue Recognition - Regular assessments to members are recognized as revenue during the period for which they are assessed. Dining room range and guest unit income is recorded in the period which it is earned. Assessments received in advance of this period are reported as deferred revenue on the balance sheet.

Contributed Gifts -The Association has established a policy for accepting and recording gifts offered to the Association on behalf of members or committees. Gifts accepted by the Association are capitalized with an offsetting credit to contributed capital for the fair value of the donated property.

Income Taxes - The Association's policy is to record interest expense or penalties related to income tax in operating expenses. For the year ended December 31, 2018, no interest or penalties related to income taxes were paid or accrued.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates.

Interfund Activity - Interfund activity is reported as interfund due from (due to) other funds and is eliminated upon consolidation. At December 31, 2018, there were no interfund receivables or payables. In 2018, fund transfers were recorded to transfer funds from the Replacement Reserve Fund to the Operating Fund for the purchase of property and equipment in the amount of $24,317, and the Contingency Fund transferred $60,000 to the Operating Fund.

Accounting Standards Issued But Not Yet Adopted - In May 2014, FASB the Financial Accounting Standards Board issued a new standard on revenue recognition, ASU No. 2014- 09, *Revenue from Contracts with Customers* (Topic 606). This new standard redefines revenue recognition around the instance of transfer of control rather than the transfer of risks and rewards, and provides recognition guidance in instances of variable consideration, licenses and contract costs. This new standard is effective for years beginning after December 15, 2018 for non-public entities (December 31, 2019 for the Association), with early adoption permitted subject to certain limitations. The amendment can be applied either retrospectively to each prior reporting period presented (i.e., full retrospective adoption) or with the cumulative effect of initially applying the update recognized at the date of the initial application (i.e., modified retrospective adoption) along with additional disclosures. The Association is evaluating the impact that the adoption of this standard will have on its consolidated financial condition and results from operations.

Subsequent Events - Subsequent events have been evaluated through April 29, 2019, which is the date the financial statements were available to be issued.

NOTE 2 Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31, 2018:

Operating fund:	
Petty cash	$ 443
Checking account	739,571
Savings account – contingency	21,315
Insurance fund cash	793,987
Total cash and cash equivalents	$ 1,555,316

The Reserve Fund had a cash overdraft of $146,078 as of December 31, 2018.

The Association maintains its cash in bank deposit accounts with various financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to $250,000. Deposits in these financial institutions may, from time to time, exceed federal insurance limits. The Association has not experienced any losses on its deposits of cash and cash equivalents.

NOTE 3 Property

Property at December 31, 2018 consisted of the following:

Furniture, fixtures and equipment	$ 1,234,075
Fine arts inventory	14,351
	1,248,426
Less – accumulated depreciation	(1,053,924)
Property, net	$ 194,502

Depreciation expense for the year ended December 31, 2018 was $39,808.

NOTE 4 Investments

Investments at December 31, 2018 consisted of the following:

Certificates of deposit – face value	$ 1,259,777
Money market	244,370
Total investments	$ 1,504,147

The certificates bear interest at rates ranging from 1.5% to 2.85% with 12-month maturities.

NOTE 5 Fair Value Measurements

Fair value measurements are determined based on the assumptions - referred to as inputs - that market participants would use in pricing the asset. This principle establishes a fair value hierarchy that distinguishes between market participant assumptions and the Association's own assumptions about market

participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources, while unobservable inputs are the Association's own assumptions about what market participants would assume based on the best information available in the circumstances.

The three levels of the fair value hierarchy are as follows:

- *Level 1 inputs.* A quoted price in an active market for an identical asset or liability that the Association has the ability to access at the measurement date is considered to be the most reliable evidence of fair value.

- *Level 2 inputs.* These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1.

- *Level 3 inputs.* These inputs are unobservable and are used to measure fair value only when observable inputs are not available.

Fair value assets measured on a recurring basis at December 31, 2018 consisted of certificates of deposit and money market funds (Level 1).

Financial assets and short term liabilities have carrying values which approximate their fair values for the period presented. The carrying amounts of receivables approximate fair value because of their short-term nature. The maturity amount of the current liabilities approximates their fair value because of the relatively short period until they mature or are required to be settled.

NOTE 6 Future Major Repairs and Replacements

The Association is required by the Declaration of Protective Restrictions to set aside funds for future repairs and replacements. The annual provision is determined by the Board of Directors and is reported as current income in the reserve fund. Projected accumulated funds, which aggregated $1,319,844 at December 31, 2018, are held in separate accounts and are generally not available for operating purposes.

The assessment amounts for future major repairs and replacements are determined by the Board of Directors based on a study performed by an independent professional reserve analyst. A study was conducted in July 2017; these studies are performed every three years. Actual expenditures may vary from the estimated amounts determined by the study, and the variations may be material. Accordingly, the current assessments and cash savings may not be sufficient to meet all future replacement costs; therefore, when replacement funds are needed, the Association has the right to increase monthly assessments, pass special assessments, or delay replacement until funds are available. In 2018, the Association funding for major repairs and replacements totaled $263,758, whereas the July 2017 study recommended funding $1,055,033.

NOTE 7 Income Taxes

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 8.84% by the State of California.

A condominium association may be taxed as either a homeowners' association or as a regular corporation. The Association has elected to be taxed as a homeowners' association under Internal Revenue Code Section 528. Management has evaluated the Association's tax positions and concluded that the Association has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Association's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

NOTE 8 Owners' Assessments and Utilities

The Association's by-laws require that the Board of Directors adopt a budget each year for common expenses. The budget is determined by the Board of Directors. Assessments are made against the unit owners as specified in the annual budget. Assessments include amounts for normal operating expenses and to fund future major repairs and replacements. In 2018, the Association's original budget called for funding future major repairs and replacements an amount totaling $1,055,033. The Association amended its 2018 budget for funding major repairs and replacements to an amount of $263,758.

Included with member assessments is the owner portion related gas and electricity. In addition, member's pay the Association for cable, as a pass-through. The Association pays for member gas and electric use and cable, then is reimbursed through assessments. For 2018, the total charged for the owner's portion of gas and electric was $794,897, and the total charged for cable was $147,390.

NOTE 9 Pension Plan

The Association provides pension benefits to their eligible employees through a 401(k) Plan. Each eligible employee may elect to defer from income, a portion of his/her wages, not greater than the maximum dollar amount determined by the Federal government each year. The Association makes matching contributions on behalf of all participating employees to their individual retirement accounts up to the amount of 4% of gross wages.

NOTE 10 Commitments and Contingencies

The Association recognizes commitments when it enters into executed contractual obligations with other parties, and accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

The Association did not properly enroll employees in the pension plan in 2018. The Association is in the process of correcting the error, and has not yet determined the amount of potential liability as of the date of this report.

In connection with the fire damage sustained by two members' units in 2017, the Association incurred cumulative expenses totaling $2,296,878, received insurance proceeds totaling $2,129,401, and received dividend income totaling, $13,550, through December 31, 2018. There is a deductible of $5,000. The Association anticipates receiving approximately an additional $165,000 from the insurance company in 2019. However, as this additional insurance recovery is subject to certain contingencies, including the insurance company's review and final accounting, such amount will not be recognized until all contingencies are resolved or cash proceeds are received.

From time to time, the Association may become involved in claims and other legal matters arising in the ordinary course of business. Management is not currently aware of any matters that will have a material adverse effect on the financial position, results of operations or cash flows of the Association.

NOTE 11 Prior Period Adjustments

The Association recorded prior period adjustments totaling a net $13,997, to increase the beginning Reserve Fund balance by $105,811, and decease the beginning Insurance Fund balance by $91,814.

Reserve Fund Prior Period Adjustment
In January 2018, the Reserve Fund cancelled two outstanding checks totaling $105,811 related to services expensed in 2017. The reversal of expense should have been recorded in 2017.

Insurance Fund Prior Period Adjustment
The prior period adjustment relates to fire damage incurred by two members' units in February 2017. Because the loss was incurred in 2017 and (i) it was probable a loss had been incurred and (ii) the amount of loss was reasonably estimable in 2017, the Association believes expenses of $1,849,589 should have been accrued in 2017. Additionally, as the insurance proceeds totaling $1,757,775 were received shortly after the 2017 year end, it was deemed probable the Association as of December 31, 2017, and therefore the Association believes such recovery also should have been accrued as of December 31, 2017.

SUPPLEMENTARY INFORMATION

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Payroll expenses:		
Salaries	$	508,004
Payroll taxes		58,302
Health insurance		75,802
Compensation insurance		33,739
Retirement savings plan		13,273
Total payroll expenses		689,120
Operating expenses:		
Employee relations		1,585
Insurance		256,072
Security		191,950
Audit fees		25,328
Miscellaneous		1,728
Legal fes and settlements		30,449
Office expense		18,751
Dues and subscriptions		22,568
Copy machine		15,434
Data processing		41,013
Clubhouse cleaning		18,062
Safety		417
Bank fees		7,729
Bad debt expense		17,007
Floral display/decorations		2,057
Accounting fees		7,650
Total operating expenses		657,800
Toal expenses before depreciation		1,346,920
Depreciation		5,175
Total general and administrative expenses	$	1,352,095

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF UTILITIES AND SERVICES - COMMON AREAS EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Gas and electricity	$	927,516
Water		242,159
Waste disposal		49,075
Telephone		20,016
Cable		147,390
Propane tank		392
Total utilities and services expenses	$	1,386,548

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF GROUNDS MAINTENANCE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Payroll expenses:		
Salaries	$	342,802
Payroll taxes		61,610
Health insurance		95,655
Compensation insurance		50,200
Retirement savings plan		31,031
Total payroll expenses		581,298
Operating expenses:		
Auto		12,399
Contract work		41,343
Dues and subscriptions		778
Equipment maintenance and repair		13,151
Utilities		1,502
Fertilizer		2,204
Landscape projects		4,574
Pest control		1,270
Plant replacement		13,754
Small tools		3,450
Soil conditioner		2,800
Uniforms		10,333
Total operating expenses		107,558
Toal expenses before depreciation		688,856
Depreciation		5,971
Total grounds maintenance expenses	$	694,827

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF FACILITIES MAINTENANCE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUES:	$	10,251
Payroll expenses:		
Salaries		224,730
Payroll taxes		46,050
Health insurance		67,269
Compensation insurance		24,277
Retirement savings plan		27,863
Total payroll expenses		390,189
Operating expenses:		
Auto		8,256
Contract work		7,659
Paint		18,263
Repair parts		4,874
Uniforms		2,684
Pool maintenance		3,610
Supplies		570
Heating		2,060
Small tools		777
Pest control		5,622
Lighting		5,342
Total operating expenses		59,717
Toal expenses before depreciation		449,906
Depreciation		18,710
Total facilities maintenance expenses	$	468,616

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF GUEST HOUSE REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

REVENUES:	$	98,369
EXPENSES:		
Payroll expenses:		
Salaries and wages		49,134
Payroll taxes		6,200
Health insurance		5,167
Compensation insurance		1,513
Total payroll expenses		62,014
Operating expenses:		
Supplies		5,915
Laundry expense		7,179
Breakfast		3,631
Utilities		2,725
Carpet cleaning		807
Maintenance and repairs		30
Total operating expenses		20,287
Toal expenses before depreciation		82,301
Depreciation		7,165
Total guest house expenses		89,466
GUEST HOUSE - NET	$	8,903

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SCHEDULE OF DINING ROOM REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

SALES	$	274,876
COST OF SALES:		
Beginning inventory		16,572
Plus purchases		84,541
Less ending inventory		(16,671)
Total cost of sales		84,442
GROSS PROFIT		190,434
EXPENSES:		
Payroll expenses:		
Salaries and wages		276,681
Payroll taxes		39,985
Health insurance		9,726
Compensation insurance		14,172
Retirement savings plan		14,565
Total payroll expenses		355,129
Operating expenses:		
Supplies		14,016
Promotions		2,464
Laundry expense		10,382
Licenses		1,277
Decorations		350
Small tools		1,747
Miscellaneous		125
Uniforms		1,533
Total operating expenses		31,894
Toal expenses before depreciation		387,023
Depreciation		2,787
Total dining room expenses		389,810
OPERATING LOSS		(199,376)
OTHER INCOME:		
Minimum charge assessments		15,780
DINING ROOM - Net	$	(183,596)

REQUIRED SUPPLEMENTARY INFORMATION

DEL MESA CARMEL
COMMUNITY ASSOCIATION, INC
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018

An independent professional reserve analyst conducted a study in July 2017 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study with an assumed inflation rate of 3% and a rate of return on replacement funds of .5%.

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

COMPONENTS	ESTIMATED REMAINING USEFUL LIFE YEARS	ESTIMATED CURRENT REPLACEMENT COSTS
Asphalt/sidewalks	1-5	$ 426,313
Roofing	1-24	5,112,390
Gutters and downspouts	1-24	657,140
Fencing/wood boarders/benches	5	16,950
Furniture/decor package	2-8	124,900
Appliances	3-10	50,500
Lighting - exterior and interior	1-11	46,838
Cabinets and countertops/doors	2-10	56,500
Pool/spa and shuffleboard courts	13-38	50,970
Sewer lift station/ground level tanks	2-12	133,000
Waste pipe renovation	1-8	18,000
Wall and window coverings	5	8,700
Windows/sliders	10-22	134,900
Carpet and flooring/ceiling	5-21	76,025
Stairs/ramps	4	110,000
Equipment - facility, grounds, clubhouse & office	1-23	82,250
Kitchen	4-16	180,500
Plumbing - various and plenum - HVAC	3-8	6,000
Water heaters/boilers/recirculation system	1-10	203,850
Equipment – water system	9-30	177,000
Railing - balcony/metal/benches	2-20	23,470
Decks – wood/doors	1-15	396,000
Landscaping/irrigation	1-2	215,000
Vehicles	5-13	257,000
Emergency generator	9	37,500
Siding trim repair	4	42,000
Painting interior and exterior	1-5	165,415
Foundation	4	50,000
Clubhouse terrace recoat	3	109,500
Total		$ 8,968,611

Estimated cash reserves necessary to repair, replace, restore or maintain the major components (*) as of December 31, 2018. (Ideal balance)	$ 4,724,307
Replacement fund cash and investments balance at December 31, 2018	$ 1,319,844
Percent funded	28%
2019 Budgeted Reserve Contribution	$ 955,033

* Figure obtained from the Association's most recent full component study prepared by Applied Reserve Analysis. Detailed information can be found in that report, dated July 2017.