



W O O D B U R Y

September 25, 2018

RE: Woodbury Community Association
2017-2018 Audit Report

Dear Woodbury Community Association Homeowner:

Enclosed, please find a copy of the Woodbury Community Association year-end report as of May 31, 2018. This is being distributed to you in accordance with California Civil Code 5305, which states in part; "a review of the financial statement of the association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year".

This report shall be distributed annually to each member of the association within one hundred and twenty (120) days after each accounting year end. The year-end for the Woodbury Community Association is May 31st.

Please take a few moments of your time to review the enclosed as it outlines the financial condition of your association. This report was prepared by the independent firm of Inouye, Shively & Klatt. It is recommended that you retain this document with your permanent property records.

Also enclosed, is the Annual Maintenance Inspection Report Summary.

Upon your receipt and review of the enclosed, should you have any questions, please do not hesitate to contact the undersigned at (949) 451-1654.

Sincerely,

At the Direction of the Board of Directors,
Woodbury Community Association

Karen Thompson

Karen Thompson, CMCA, AMS
General Manager

Enclosure



Member:
American Institute
of Certified Public
Accountants

Member:
California Society
of Certified Public
Accountants

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To the Board of Directors and Members of
Woodbury Community Association

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Woodbury Community Association, which comprise the balance sheet as of May 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 Woodbury Community Association as of May 31, 2018, 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.

Board of Directors and Members
Woodbury Community Association

Emphasis of Matter on Future Major Repairs and Replacements

Our audit was made for the purpose 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 3 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 this 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 9 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is 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 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.

Inouye, Shively & Klatt

Inouye, Shively, & Klatt

Laguna Hills, CA
August 23, 2018

WOODBURY COMMUNITY ASSOCIATION

BALANCE SHEET
AS OF MAY 31, 2018

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 699,703	\$ 491,126	\$ 1,190,829
Investments	900,000	5,371,000	6,271,000
Assessments receivable	66,884	-	66,884
Allowance for doubtful accounts	(58,000)	-	(58,000)
Water reimbursement receivable	28,331	-	28,331
Accrued interest receivable	2,787	24,976	27,763
Prepaid expenses	27,346	-	27,346
Furniture and equipment	112,197	-	112,197
Accumulated depreciation	(79,303)	-	(79,303)
Interfund account	14,645	(14,645)	-
Total assets	1,714,590	5,872,457	7,587,047
Liabilities			
Accounts payable	109,138	12,364	121,502
Prepaid assessments	111,020	-	111,020
Refundable deposits	60,776	-	60,776
Income taxes payable	6,838	-	6,838
	287,772	12,364	300,136
Fund balances	1,426,818	5,860,093	7,286,911
Total liabilities and fund balances	\$ 1,714,590	\$ 5,872,457	\$ 7,587,047

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

WOODBURY COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MAY 31, 2018

	Operating Fund	Replacement Fund	Total
Revenues			
Member assessments	\$ 2,831,768	\$ 1,361,512	\$ 4,193,280
Investment income	9,552	63,464	73,016
Clubhouse rental	36,691	-	36,691
Recreation income	8,883	-	8,883
Other income	41,688	-	41,688
Total revenues	2,928,582	1,424,976	4,353,558
Expenses			
Landscape services	872,120	418,351	1,290,471
Pool/spa services	325,027	90,422	415,449
General maintenance and repairs	228,641	-	228,641
Security/patrol services	90,213	-	90,213
Pest control	19,101	-	19,101
Janitorial services	144,997	-	144,997
Street sweeping	3,180	-	3,180
Water	170,525	-	170,525
Electricity	136,446	-	136,446
Gas	85,659	-	85,659
Telephone	16,097	-	16,097
Internet	9,264	-	9,264
Refuse	14,435	-	14,435
Plumbing	14,889	-	14,889
Management fees	402,420	-	402,420
Office supplies/printing/postage	24,367	-	24,367
Insurance	40,662	-	40,662
Legal and collection	35,313	-	35,313
Audit/tax preparation/reserve study	9,995	-	9,995
General and administrative	38,861	-	38,861
Provision for doubtful accounts	11,021	-	11,021
Architectural services	3,650	-	3,650
Resident activities	124,319	-	124,319
Salaries and related	25,180	-	25,180
Depreciation	13,711	-	13,711
Painting	-	50,660	50,660
Lighting	-	17,410	17,410
Recreation center	-	213,431	213,431
Fencing & walls	-	19,245	19,245
Parks	-	117,129	117,129
Concrete	-	1,950	1,950
Mailboxes	-	44,900	44,900
Income tax	25,948	-	25,948
Total expenses	2,886,041	973,498	3,859,539
Excess of revenues over expenses	42,541	451,478	494,019
Beginning fund balances	1,384,277	5,408,615	6,792,892
Ending fund balances	\$ 1,426,818	\$ 5,860,093	\$ 7,286,911

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

WOODBURY COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MAY 31, 2018

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 42,541	\$ 451,478	\$ 494,019
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Depreciation	13,711	-	13,711
Increase in net assessments receivable	(4,898)	-	(4,898)
Decrease in water reimbursement receivable	48,391	-	48,391
Increase in accrued interest receivable	(2,605)	(13,986)	(16,591)
Decrease in prepaid expenses	9,539	-	9,539
Increase (decrease) in accounts payable	54,543	(61,206)	(6,663)
Increase in prepaid assessments	579	-	579
Increase in refundable deposits	471	-	471
Increase in income tax payable	3,462	-	3,462
Total adjustments	123,193	(75,192)	48,001
Net cash provided by operating activities	165,734	376,286	542,020
Cash flows from investing activities:			
Purchase of investments - net	(900,000)	(1,312,000)	(2,212,000)
Net cash used in investing activities	(900,000)	(1,312,000)	(2,212,000)
Cash flows from financing activities:			
Change in interfund payable balances	(14,645)	14,645	-
Net cash provided by (used in) financing activities	(14,645)	14,645	-
Net decrease in cash and cash equivalents	(748,911)	(921,069)	(1,669,980)
Cash and cash equivalents at beginning of year	1,448,614	1,412,195	2,860,809
Cash and cash equivalents at end of year	\$ 699,703	\$ 491,126	\$ 1,190,829
Supplemental disclosures			
Income taxes paid	\$ 22,486	\$ -	\$ 22,486

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

WOODBURY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2018

NOTE 1 - NATURE OF ORGANIZATION

Woodbury Community Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 4,068 residential units (926 single family units, 1,408 condominium units, and 6 apartment complexes consisting of 1,734 units) occupying a site in Irvine, California and was incorporated on June 10, 2004.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting: Accounting records for the Association are maintained on a modified accrual basis of accounting, which recognizes assessments when billed, but recognizes other revenues when received and expenses when paid. For audit and tax purposes, adjustments have been made to convert the Association's financial statements to the full accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

(b) Fund Accounting: The Association uses fund accounting which requires that funds be classified separately for accounting and reporting purposes. Financial resources are classified in the following funds established according to their nature and purpose:

Operating Fund - Available for normal operating purposes. Disbursements are generally at the discretion of the Board of Directors.

Replacement Fund - Available for major repairs and replacements of common area components. Disbursements generally may be made only for their designated purpose.

(c) Capitalization and Depreciation Policy: Real property contributed by the developer as well as replacements and improvements are generally not capitalized since the Association's governing documents impose restrictions on its disposition. Significant personal property assets, if any, are generally capitalized at cost and depreciated over its estimated useful life using the straight-line method of depreciation.

(d) Cash Equivalents and Investments: Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Investments consist primarily of certificates of deposit and other securities with original maturities over 90 days. Investments are considered to be held to maturity which range from June 2018 to May 2021. Cash equivalents and investments are stated at cost.

(e) Investment Income: Investment income consists primarily of interest and dividends earned on cash, cash equivalents and investment accounts, and is recorded as it is earned. Investment income is generally accounted for in the fund in which it is earned.

(f) Estimates: Financial statements prepared in conformity with generally accepted accounting principles require the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(g) Subsequent Events: The Association has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through August 23, 2018, the date the financial statements were available to be issued.

WOODBURY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MAY 31, 2018

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is in compliance with its governing documents that require funds be accumulated for future major repairs and replacements of common property components. Substantially all accumulated funds are held in separate accounts and are generally not available for normal operating purposes.

The Association's reserve funding policy was based on a study conducted in January 2018, by an independent analyst to estimate the remaining useful lives and costs of future major repairs and replacements of common property components. The study recommends a fully funded reserve balance of \$6,875,624. As of May 31, 2018, the actual available replacement fund balance was \$5,860,093. The study recommends an annual member contribution of \$1,424,277. The Association's 2018/2019 budget includes a reserve contribution of \$1,424,268.

Funds are being accumulated in the replacement fund based on estimated future costs. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, the Association has the right to increase assessments, pass special assessments, or delay repairs and replacements until funds are available.

NOTE 4 - INCOME TAXES

For the year ended May 31, 2018, the Association qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 and California Revenue and Taxation Code Section 23701t. Under these Sections the Association is not taxed on net income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes investment income and revenues received from nonmembers, is taxed at 30% by the federal government and 8.84% by the State of California.

The Association recognizes tax benefits only to the extent that it believes it is more likely than not that its tax positions will be sustained upon examination by taxing authorities. The Association believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded. The Association's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed, and by the California Franchise Tax Board for four years after they are filed.

NOTE 5 - MEMBER ASSESSMENTS

Association members are subject to paying assessments to fund the Association's operating activities, capital acquisitions, and future major repairs and replacements. During the year ended May 31, 2018, the monthly assessment was \$120 for the single family and condominium units, and 1/3 of that for the apartment units. The 2018/2019 monthly assessment is budgeted to increase to \$125 per unit for the single family and condominium units, and 1/3 of that for the apartment units. The annual budget and member assessments are determined by the Board of Directors. The Association retains excess funds at the end of the year, if any, for use in future periods.

WOODBURY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
MAY 31, 2018

NOTE 6 - ASSESSMENTS RECEIVABLE

Assessments receivable represent assessments and other fees due from members. The Association's governing documents provide for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner.

Generally accepted accounting principles require uncollectible receivables to be accounted for using the allowance method, which requires an annual provision for doubtful accounts. As such, the allowance for doubtful accounts represents an estimate of the amount of accounts receivable that may eventually be uncollectible. The allowance was computed by adding all receivables with balances older than 90 days.

Receivable balances are written off once all collection alternatives have been exhausted and the Board of Directors has deemed them uncollectible.

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Federal Deposit Insurance Coverage (FDIC) standard amount is \$250,000 per depositor, per insured bank. As of May 31, 2018, the Association had deposits with City National Bank that exceeded the FDIC coverage limit by approximately \$698,000.

NOTE 8 - INTERFUND ACCOUNT

The interfund account represents the amount one fund owes another fund. Various scenarios may cause this situation which include, but are not limited to, one fund paying the expenses of another fund, one fund borrowing from another fund, or the operating fund not paying the full annual budgeted contribution amount to the replacement fund.

NOTE 9 - REFUNDABLE DEPOSITS

The Association collects deposits from homeowners to ensure compliance with certain architectural and other requirements. The deposits are generally not available for normal operating purposes, and are refunded upon satisfactory completion of the particular requirement. If the requirements are not met within a certain period of time, the Association may apply and collect penalties from the deposited funds.

NOTE 10 - WATER REIMBURSEMENT RECEIVABLE

The Association bills its landscape service vendor each month for water charges that are wasteful and/or inefficient. Management and the Board of Directors believe the full amount of the receivable as of May 31, 2018 is fully collectible, and thus an allowance for doubtful accounts has not been recorded.

WOODBURY COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF MAY 31, 2018
(UNAUDITED)

A study was conducted in January 2018, by an independent analyst to estimate the remaining useful lives and the repair and replacement costs of common property components. The study was based on information provided by management, the Board of Directors, and Association vendors, as well as the knowledge and experience of the analyst. The study preparer may also use published manuals such as construction estimators, appraisal handbooks and valuation guides to estimate costs and remaining useful lives. The estimated costs were based on current estimated repair and replacement costs at the time of the study. Funding requirements consider an inflation rate of 2%, scheduled annual contribution increase of 2%, and an investment rate of 1% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$6,875,624. As of May 31, 2018, the actual available replacement fund balance was \$5,860,093. The study recommends an annual member contribution of \$1,424,277. The Association's 2018/2019 budget includes a reserve contribution of \$1,424,268.

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

Common Property Components	Estimated Remaining Useful Lives (Years)	Estimated Repair and Replacement Costs
Concrete	13	\$ 63,651
Streets	3 - 15	730,364
Roofs	18	458,001
Paint	0 - 5	265,312
Fencing/walls	4 - 18	959,688
Lighting	2 - 19	1511,559
Parks	0 - 29	2,934,461
Pool/spa areas	0 - 24	964,939
Rec center	0 - 24	2,825,395
Grounds	3 - 14	423,369
Mailboxes	13	504,410
Signs	2 - 25	228,571
Irrigation	2 - 19	681,520
Landscape	0 - 1	413,851
Total		<u><u>\$12,965,091</u></u>



W O O D B U R Y

Woodbury Community Association Annual Maintenance Inspection Report Summary

In accordance with Article X, Section 7 of the Master Declaration of Covenants, Conditions, and Restrictions, the Woodbury Community Association Board of Directors recently contracted for an annual maintenance inspection of the Master Association Property and Maintenance Areas, including all of the pool and park facilities, the site amenities, the landscaping areas and the monuments and towers maintained by the Association at the time that the inspection was conducted.

Summary of Inspection's Findings

La Jolla Pacific, Inc. conducted the inspection and produced a comprehensive report on its findings on May 1, 2018. According to the report, the Association's properties were found to generally be in good condition. The landscaping and monuments and towers were found to be in generally good condition. Additionally, the site amenities, such as pool furniture, barbecues, drinking fountains, fencing, trellises, etc. were found to be clean and in good condition. The pool equipment rooms were found to be clean and in good condition.

Various miscellaneous routine repair items were identified at several pool and park facilities. These issues identified during the inspection have been addressed and/or repaired or are in the process of being addressed and/or repaired.

Description of Maintenance Planned for Ensuing Fiscal Year

The Association will continue the program of regular maintenance of the Master Association Property and Maintenance Areas in the ensuing fiscal year. At this time, the specific replacement projects currently scheduled for the ensuing fiscal year are replacing some of the playground equipment at Olive Grove Square Park; plaster, coping and tile replacement at the Date Palm Square Pool; and tennis/sports court resurfacing.

Update on Status of Recommended Maintenance from Preceding Year

All of the maintenance, replacement and/or repair needs recommended as part of the annual maintenance inspection conducted in 2017 have been completed.

If you have any questions or would like a copy of the annual maintenance inspection report, please contact Karen Thompson, General Manager, at 949/451-1654 or at kthompson@keystonepacific.com.