



OUTDOOR RESORT PALM SPRINGS

69411 Ramon Rd ~ Cathedral City, CA 92234 ~ 760-328-3834 (p) ~760-328-7852 (f)

September 15, 2019

Dear Owners,

As many of you know our fiscal year ends on June 30th and per the California Civil Code a copy of the Audited Financials must be sent to the members within 120 days of the end of the fiscal year. Please find a copy of the Audited Financials for the 2018-2019 fiscal year as well as an update on our Mailroom procedures.

I hope you all have enjoyed your summer and if you have not yet returned to the Resort, we look forward to seeing you soon!

Respectfully,

Clint Atherton
General Manager



Mailroom Information Update

As many of you begin to return to ORPS, we wanted to send out an update on Mailroom procedures.

1. All mail will be placed in your mailboxes, we do not sort, separate or discard mail on the owner's behalf. If you have mail that you no longer wish to receive, see the mailroom for information on how to discontinue this mail.
2. You must have your mail key to retrieve your mail from your box. If you need a replacement mail key see the front office for information.
3. If you authorize someone else to pick up your mail for you, you must provide them with a key to your mailbox.
Mailroom staff are not permitted to give mail to anyone other than the addressed owner. If you authorize this person to retrieve packages for you, and you have received a package slip, please email orpsmailroom@orps.com and provide written authorization to release your package.
4. Requests for mail to be put in a different mailbox will only be permitted if it is your second lot. Otherwise, your mail will be put in the box that has been assigned to you.
5. If you do not request your mail to be forwarded upon departing, any mail that is received will be placed in your box.
6. Forwarding labels will be provided by the mailroom at no cost to the owners. Please complete the Mail forwarding request before you depart and verify the forwarding address. These slips will be located outside the mailroom windows.
7. Non first-class packages cannot be forwarded, they will remain in the mailroom until you return.
8. Package notification slips will be required when inquiring about a package. If you have not received a slip, we have not received your package. Please have your package notification slip as well as your prox card with you to pick up any packages.
9. If you sell your lot, please complete a mail forwarding request with your new address. Be sure to contact anyone you receive mail from and change your address as we will only forward your mail for one year after you sell.
10. Please put your lot number on **ALL** of your mail that you receive at ORPS. Failure to do so may delay the delivery of your mail.
11. If you receive mail that may be under another name, please email orpsmailroom@orps.com and give us this information so we make sure you receive this mail.

Financial Statements

OUTDOOR RESORTS/
PALM SPRINGS
OWNERS ASSOCIATION

JUNE 30, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Outdoor Resorts/Palm Springs Owners Association
Cathedral City, California

Report on the Financial Statements

We have audited the accompanying financial statements of Outdoor Resorts/Palm Springs Owners Association, which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

Board of Directors and Members
Outdoor Resorts/Palm Springs Owners Association
Cathedral City, California

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Outdoor Resorts/Palm Springs Association as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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.

Bruce & Carlson, LLP

August 12, 2019

Palm Springs, California

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

BALANCE SHEETS

JUNE 30, 2019 AND 2018

ASSETS

	Operating Fund	Replacement Fund	Capital Fund	TOTALS	
				2019	2018
ASSETS					
Cash	\$ 497,292	\$ 1,360,042	\$ 56,907	\$ 1,914,241	\$ 1,157,887
Certificates of deposit	939,136	1,922,416	-	2,861,552	1,101,626
Investments	-	-	-	-	2,000,799
Assessments receivable, less allowance of \$0 in 2019 and 2018 for uncollectible accounts	7,368	-	-	7,368	7,645
Inventories	3,300	-	-	3,300	4,922
Prepaid expenses	18,748	2,220	-	20,968	275,838
Intercompany receivable/payable	193,329	(14,419)	(178,910)	-	-
Other assets	6,667	-	-	6,667	6,667
Property and equipment, net of accumulated depreciation of \$1,525,598 in 2019 and \$1,474,329 in 2018	237,340	-	-	237,340	288,609
	<u>\$ 1,903,180</u>	<u>\$ 3,270,259</u>	<u>\$ (122,003)</u>	<u>\$ 5,051,436</u>	<u>\$ 4,843,993</u>

LIABILITIES AND FUND BALANCES

LIABILITIES					
Accounts payable and accrued expenses	\$ 42,846	\$ 5,478	\$ -	\$ 48,324	\$ 101,547
Prepaid assessments	211,081	-	-	211,081	214,960
Accrued wages and salaries payable	57,881	-	-	57,881	45,938
Capital lease payable	-	-	-	-	2,359
Deposits and other liabilities	36,934	-	-	36,934	50,091
	<u>348,742</u>	<u>5,478</u>	<u>-</u>	<u>354,220</u>	<u>414,895</u>
FUND BALANCES					
Operating fund	1,317,098	-	-	1,317,098	1,206,491
Property and equipment fund	237,340	-	-	237,340	288,609
Replacement fund	-	3,264,781	-	3,264,781	2,949,201
Capital fund	-	-	(122,003)	(122,003)	23,234
Accumulated other comprehensive income	-	-	-	-	(38,437)
	<u>1,554,438</u>	<u>3,264,781</u>	<u>(122,003)</u>	<u>4,697,216</u>	<u>4,429,098</u>
	<u>\$ 1,903,180</u>	<u>\$ 3,270,259</u>	<u>\$ (122,003)</u>	<u>\$ 5,051,436</u>	<u>\$ 4,843,993</u>

The accompanying notes are an integral part of these financial statements.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2019

	Operating Fund	Replacement Fund	Capital Fund	Totals
REVENUES				
Member assessments	\$ 4,235,796	\$ 1,295,484	\$ 43,668	\$ 5,574,948
Interest income	7,133	51,979	19	59,131
Front office revenue	346,265	-	-	346,265
Late fees and miscellaneous	46,987	-	-	46,987
Rental income	56,446	-	-	56,446
Golf	10,491	-	-	10,491
Convenience store	1,645	-	-	1,645
Laundry	101,735	-	-	101,735
Activities	123,185	-	-	123,185
Bar	83,706	-	-	83,706
Other	25,856	-	-	25,856
	<u>5,039,245</u>	<u>1,347,463</u>	<u>43,687</u>	<u>6,430,395</u>
EXPENSES				
Administration	813,704	-	-	813,704
Front office expense	140,502	-	-	140,502
Security	425,363	-	-	425,363
Mailroom	35,740	-	-	35,740
Activities	212,731	-	-	212,731
Bar	64,787	-	-	64,787
Oracle expenses	10,849	-	-	10,849
Convenience store	2,300	-	-	2,300
Restaurant	325	-	-	325
Golf	29,782	-	-	29,782
Facilities	238,774	-	-	238,774
Grounds	1,348,333	-	-	1,348,333
Maintenance	643,824	-	-	643,824
Vehicles	62,687	-	-	62,687
Laundry	9,776	-	-	9,776
Utilities	835,754	-	-	835,754
Realized losses on investments	-	22,236	-	22,236
Income taxes	-	10,458	-	10,458
Replacement fund expenditures	-	1,014,159	188,924	1,203,083
	<u>4,875,231</u>	<u>1,046,853</u>	<u>188,924</u>	<u>6,111,008</u>
Excess (deficiency) of revenues over expenses before depreciation	164,014	300,610	(145,237)	319,387
Depreciation expense	51,269	-	-	51,269
Excess (deficiency) of revenues over expenses	<u>\$ 112,745</u>	<u>\$ 300,610</u>	<u>\$ (145,237)</u>	<u>\$ 268,118</u>
FUND BALANCES, beginning of the year	\$ 1,495,100	\$ 2,910,764	\$ 23,234	\$ 4,429,098
Excess (deficiency) of revenues over expenses	112,745	300,610	(145,237)	268,118
Inter-fund transfers	(53,407)	53,407	-	-
FUND BALANCES, end of the year	<u>\$ 1,554,438</u>	<u>\$ 3,264,781</u>	<u>\$ (122,003)</u>	<u>\$ 4,697,216</u>

The accompanying notes are an integral part of these financial statements.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2018

	Operating Fund	Replacement Fund	Capital Fund	Totals
REVENUES				
Member assessments	\$ 4,235,796	\$ 1,295,484	\$ -	\$ 5,531,280
Interest income	7,012	15,136	19	22,167
Front office revenue	344,895	-	-	344,895
Late fees and miscellaneous	77,048	-	-	77,048
Rental income	59,628	-	-	59,628
Golf	14,093	-	-	14,093
Convenience store	1,871	-	-	1,871
Laundry	99,816	-	-	99,816
Activities	111,722	-	-	111,722
Bar	58,355	-	-	58,355
Other	7,904	17,000	-	24,904
	<u>5,018,140</u>	<u>1,327,620</u>	<u>19</u>	<u>6,345,779</u>
EXPENSES				
Administration	787,959	-	-	787,959
Front office expense	127,080	-	-	127,080
Security	392,532	-	-	392,532
Mailroom	35,086	-	-	35,086
Activities	229,798	-	-	229,798
Bar	38,290	-	-	38,290
Oracle expenses	99	-	-	99
Convenience store	308	-	-	308
Restaurant	3,165	-	-	3,165
Golf	31,363	-	-	31,363
Facilities	218,734	-	-	218,734
Grounds	1,370,775	-	-	1,370,775
Maintenance	581,131	-	-	581,131
Vehicles	64,240	-	-	64,240
Laundry	3,159	-	-	3,159
Utilities	770,511	-	-	770,511
Income taxes	-	4,955	-	4,955
Replacement fund expenditures	-	823,086	21,300	844,386
	<u>4,654,230</u>	<u>828,041</u>	<u>21,300</u>	<u>5,503,571</u>
Excess (deficiency) of revenues over expenses before depreciation	363,910	499,579	(21,281)	842,208
Depreciation expense	53,407	-	-	53,407
Excess (deficiency) of revenues over expenses	310,503	499,579	(21,281)	788,801
OTHER COMPREHENSIVE INCOME				
Net unrealized losses on investments	-	(40,771)	-	(40,771)
TOTAL COMPREHENSIVE INCOME	<u>\$ 310,503</u>	<u>\$ 458,808</u>	<u>\$ (21,281)</u>	<u>\$ 748,030</u>
FUND BALANCES, beginning of the year	\$ 1,049,760	\$ 2,586,793	\$ 44,515	\$ 3,681,068
COMPREHENSIVE INCOME				
Excess (deficiency) of revenues over expenses	310,503	499,579	(21,281)	788,801
Net unrealized losses on investments	-	(40,771)	-	(40,771)
TOTAL COMPREHENSIVE INCOME	<u>310,503</u>	<u>458,808</u>	<u>(21,281)</u>	<u>748,030</u>
Inter-fund transfers	134,837	(134,837)	-	-
FUND BALANCES, end of the year	<u>\$ 1,495,100</u>	<u>\$ 2,910,764</u>	<u>\$ 23,234</u>	<u>\$ 4,429,098</u>

The accompanying notes are an integral part of these financial statements.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Operating Fund	Replacement Fund	Capital Fund	TOTALS	
				2019	2018
NET CASH FLOW FROM OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$ 112,745	\$ 300,610	\$ (145,237)	\$ 268,118	\$ 748,030
Adjustments to reconcile net revenues over expenses to net cash flow from operating activities:					
Depreciation	51,269	-	-	51,269	53,407
Unrealized loss on investments	-	-	-	-	40,771
(Increase) Decrease in:					
Assessments receivable	277	-	-	277	8,039
Other receivables	-	-	-	-	37,596
Inventories	1,622	-	-	1,622	51
Prepaid expenses	(17,446)	219,647	52,669	254,870	(191,252)
Inter-fund receivable/payable	(75,193)	(61,048)	136,241	-	-
Other assets	-	-	-	-	-
Increase (Decrease) in:					
Accounts payable and accrued expenses	(58,701)	5,478	-	(53,223)	72,112
Prepaid assessments	(3,879)	-	-	(3,879)	(10,488)
Accrued wages and salaries payable	11,943	-	-	11,943	4,476
Deposits and other liabilities	(13,157)	-	-	(13,157)	27,599
Net cash provided by operating activities	<u>9,480</u>	<u>464,687</u>	<u>43,673</u>	<u>517,840</u>	<u>790,341</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
(Purchase) sale of certificates of deposit	(257,132)	(1,502,794)	-	(1,759,926)	(687,562)
Investment/sale in foreclosed lot	-	-	-	-	28,000
Sale of investments	-	2,000,799	-	2,000,799	(972,077)
(Purchase) sale of property and equipment	-	-	-	-	(134,837)
Net cash provided (used) by investing activities	<u>(257,132)</u>	<u>498,005</u>	<u>-</u>	<u>240,873</u>	<u>(1,766,476)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Payments on capital lease payable	(2,359)	-	-	(2,359)	(5,155)
Inter-fund transfers	(53,407)	53,407	-	-	-
Net cash provided (used) by financing activities	<u>(55,766)</u>	<u>53,407</u>	<u>-</u>	<u>(2,359)</u>	<u>(5,155)</u>
Net increase (decrease) in cash	(303,418)	1,016,099	43,673	756,354	(981,290)
CASH, beginning of the year	800,710	343,943	13,234	1,157,887	2,139,177
CASH, end of the year	<u>\$ 497,292</u>	<u>\$ 1,360,042</u>	<u>\$ 56,907</u>	<u>\$ 1,914,241</u>	<u>\$ 1,157,887</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Cash paid during the year for:					
Income taxes				\$ 4,235	\$ 8,693
Interest				\$ 80	\$ 699

The accompanying notes are an integral part of these financial statements.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Outdoor Resorts/Palm Springs Owners Association was organized as a not-for-profit corporation for purposes of maintaining and preserving common property within the development. The development consists of 1,213 recreational vehicle lots located in Cathedral City, California. The Association began its operations in October 1984.

Accounting Method

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.

Capital Fund - This fund is used to accumulate financial resources designated for the purchase of capital improvements and development of the fitness center.

Cash Equivalents

The Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Personal property and equipment acquired by the Association are recorded at cost and are depreciated over their estimated useful lives using the straight-line method of depreciation. Real property and common areas acquired from the developer and related improvements to such property are not capitalized in the Association's financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for purposes of financial reporting.

Inventory

Inventory consists of the bar inventory stated at the lower of cost or market.

Investments

Investments consisted of United States Government obligations, corporate bonds, mutual funds and common stocks and are considered to be available for sale and stated at market value.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association retains legal counsel and places liens on the properties of homeowners whose assessments are delinquent, pursuant to its stated policy. The Association uses the allowance method for estimating uncollectible assessments.

Income Taxes

Homeowners' associations may elect to be taxed as regular corporations or as homeowners' associations. The Association elected to be taxed as a regular corporation for the years ended June 30, 2019 and 2018. Under the elections, the Association is taxed on non-membership income, at regular federal and state corporate tax rates.

The Association's policy is to record income tax related interest and penalties in operating expenses. For the years ended June 30, 2019 and 2018, there was no interest or penalties expense recorded and no accrued interest or penalties. Management has considered its tax positions and believes that all of the positions taken by the Association on its Federal and State tax returns are more likely than not to be sustained upon examination. The Association's Forms 1120, US Corporation Tax Return are subject to examination by the IRS, generally for three years after they are filed. The Association's Forms 100, Corporation Franchise or Income Tax Return and Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the Franchise Tax Board, generally for four years after they are filed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The Association's investments are measured using generally accepted accounting principles, which, among other things, establish a hierarchical framework for disclosure of and measurement of investments at fair value defined as Level 1, 2, and 3 inputs. These inputs are based on a number of factors, including the type of investment and the characteristics specific to the investment. The Association's investments are all considered to be Level 1 inputs as they are based on quoted market prices.

Subsequent Events

Subsequent events have been evaluated through August 12, 2019, which is the date the financial statements were available to be issued.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1: OWNERS' ASSESSMENTS

Monthly assessments to owners were \$383 for the year ended June 30, 2019 and \$380 for the year ended June 30, 2018. Of those amounts, \$89 in 2019 and 2018 were designated to the replacement fund, and \$3 in 2019 and \$0 in 2018 were designated to the capital improvement fund.

The annual budget and owner's assessments are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE 2: COMMON AREA PROPERTY

On June 30, 2019 and 2018 the Association held title to common real property consisting of 137 acres of land, roads, clubhouses, golf course, tennis courts, maintenance building, pools, spas, and lakes. The Association is responsible for preserving and maintaining the properties and may not dispose of them. In conformity with industry practice, the Association's common property is not recognized as assets.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
La Palma equipment and fixtures	\$ 190,884	\$ 190,884
El Saguaro equipment and fixtures	156,389	156,389
Pool, tennis and golf course equipment	131,690	131,690
Café improvements	140,372	140,372
Security improvements	97,766	97,766
Vehicles and golf carts	565,080	565,080
Other equipment and fixtures	<u>480,757</u>	<u>480,757</u>
	1,762,938	1,762,938
Less: Accumulated depreciation	<u>(1,525,598)</u>	<u>(1,474,329)</u>
	<u>\$ 237,340</u>	<u>\$ 288,609</u>

NOTE 4: INVESTMENTS

The Association's investments are stated at market value at June 30, 2018 based on quoted market prices and are considered to be available for sale. All investments were sold during the year ended June 30, 2019 and invested in certificates of deposit. The investments consisted of the following at June 30, 2018:

	<u>June 30, 2018</u>		
	<u>Market</u>	<u>Cost</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Basis</u>	<u>Gain(Loss)</u>
Government securities	\$ 360,958	\$ 364,951	\$ (3,993)
Corporate bonds	693,541	696,721	(3,180)
Mutual funds	675,644	692,559	(16,915)
Common stocks	<u>270,656</u>	<u>285,005</u>	<u>(14,349)</u>
	<u>\$2,000,799</u>	<u>\$2,039,236</u>	<u>\$ (38,437)</u>

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 4: INVESTMENTS-Continued

There were realized losses of \$22,236 recognized in the year ended June 30, 2019 as a result of the sales of the investments and a reduction of the unrealized holding losses during the year ended June 30, 2019 of \$38,437 that was included in accumulated other comprehensive income at June 30, 2018.

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The Board of Directors engaged an outside consultant to conduct a study in April 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. The study is based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.0 percent and interest of 1.0 percent, before taxes, on amounts funded for future major repairs and replacements. The table included on page 12 in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$89 per unit per month has been included in the 2019/2020 budget. Because actual expenditures may vary from the estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 6: CAPITAL LEASE PAYABLE

The Association entered into a capital lease in November 2013 for the purchase of a new phone system that expired in November 2018. The asset and liability under this capital lease is recorded at the fair value of the asset. The asset is being depreciated over the estimated useful life. Depreciation of the asset under the capital lease is included in depreciation expense for 2019 and 2018.

The following is a summary of property held under the capital lease at June 30, 2019:

Office equipment	\$ 21,237
Less: accumulated depreciation	<u>(21,237)</u>
	<u>\$ -</u>

The capital lease obligation was paid in full during the year ended June 30, 2019.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 7: PROFIT SHARING PLAN

The Association maintains a qualified 401(k) plan. The Association's funding policy is to match 100% of the employee's pre-tax contribution up to 6% of the employee's salary. The Association's contributions to this plan for the years ended June 30, 2019 and 2018 were \$32,134 and \$37,548, respectively.

NOTE 8: INTER-FUND TRANSFERS

Inter-fund transfers consist of \$53,407 of excess prior year earnings transferred from the operating fund to the replacement fund for the year ended June 30, 2019 and \$134,837 of property and equipment purchased by the replacement fund and capitalized in the operating fund for the year ended June 30, 2018.

OUTDOOR RESORTS/PALM SPRINGS OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

(UNAUDITED)

The Board of Directors engaged an outside consultant to conduct a study in April 2019, to estimate the remaining useful lives and the replacement costs of the components of common property. The study is based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.0 percent and interest of 1.0 percent, before taxes, on amounts funded for future major repairs and replacements.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2018/2019 Funding Requirement</u>
Administration	0 - 16	\$ 136,693	\$ 26,872
A – other	0 - 4	264,073	119,792
El Saguaro clubhouse	0 - 28	1,750,257	174,629
La Palma clubhouse	0 - 27	1,637,954	211,907
Golf course	0 - 23	2,176,123	183,425
Golf shack	3 - 6	9,013	1,486
Laundry	1 - 15	77,360	10,084
Maintenance equipment	0 - 14	447,662	79,185
Vehicles	0 - 3	211,540	42,123
Sat #1 (A)	0 - 19	204,223	27,438
Sat #2 (B)	0 - 19	196,882	29,902
Sat #3 (C)	0 - 15	194,859	28,686
Sat #5 (D)	0 - 19	197,493	28,141
Sat #6 (E)	0 - 19	199,988	24,460
Sat #7 (F)	0 - 21	211,549	26,982
Sat – all	8	45,060	2,575
Guard shack	2 - 22	67,217	8,276
Streets	1 - 30	2,345,067	269,260
Taxes	-	-	261
		<u>\$10,373,012</u>	<u>\$1,295,484</u>
Replacement Fund Balance – June 30, 2019			<u>\$3,264,781</u>

The Association's percentage of funding at June 30, 2019, which is based on the ending replacement fund balance divided by the reserve components' fully funded amount, is 59.47%. The Association would be 100% funded if there were \$5,458,604 in the replacement fund.