

*Monteville of Scotts Valley*

552 Bean Creek Road  
Scotts Valley, CA 95066  
Phone: 831 438 1309; Fax: 831 438 4238

11/5/2023

To: All Monteville Owners

From: Rachaell Milroy, Community Manager.

Subject: Independent Auditor's Report for FY 2023.

Attached is a copy of the Independent Auditor's Report received from Hutchinson & Bloodgood, our auditors. It indicates that all our financial statements are in order and properly reflect the current financial position of our Corporation. The Auditors were happy to report Monteville had no findings.

Respectfully,

Rachaell Milroy  
Community Manager.

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**(831) 724-2441**  
579 Auto Center Dr.  
Watsonville, CA 95076

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

To the Board of Directors  
Montevelle of Scotts Valley, Inc.  
Scotts Valley, California

We have reviewed the accompanying financial statements of Montevelle of Scotts Valley, Inc. (a nonprofit mutual benefit corporation), which comprise the balance sheet as of July 31, 2023, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **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.

### **Accountants' Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Montevelle of Scotts Valley, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountants' Conclusion on the Financial Statements**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 10 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, 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 compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

*Hatchinson and Bloodgood LLP*

November 9, 2023

**MONTEVALLE OF SCOTTS VALLEY, INC.**

**FINANCIAL REPORT**

**July 31, 2023**

## MONTEVALLE OF SCOTTS VALLEY, INC.

### Balance Sheet

July 31, 2023

|  | Operating<br>Fund | Reserve<br>Fund   | Total             |
|--|-------------------|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |                   |
| Cash and cash equivalents                              | \$ 70,742         | \$ 704,107        | \$ 774,849        |
| Assessments receivable                                 | 28,670            | --                | 28,670            |
| Accounts receivable, other                             | 15,827            | --                | 15,827            |
| Prepaid insurance                                      | 11,478            | --                | 11,478            |
| Prepaid expenses                                       | 6,623             | --                | 6,623             |
| Right-of-use asset, net                                | 17,036            | --                | 17,036            |
| Due between funds                                      | 1,247             | (1,247)           | --                |
| Property and equipment, net (at cost)                  | 22,993            | --                | 22,993            |
| Total assets   | <u>\$ 174,616</u> | <u>\$ 702,860</u> | <u>\$ 877,476</u> |
| <b>LIABILITIES AND FUND BALANCES</b>                   |                   |                   |                   |
| <b>LIABILITIES</b>                                     |                   |                   |                   |
| Accounts payable                                       | \$ 4,685          | \$ 16,015         | \$ 20,700         |
| Credit card expenses                                   | 3,448             | --                | 3,448             |
| Prepaid assessments                                    | 11,155            | --                | 11,155            |
| Payroll liabilities, accrued vacation and expenses     | 18,085            | --                | 18,085            |
| Income taxes payable                                   | 902               | --                | 902               |
| Lease liability  | 17,036            | --                | 17,036            |
| Contract liabilities (assessments received in advance) | --                | --                | --                |
| Reserve fund   | --                | 686,845           | 686,845           |
| Total liabilities                                      | 55,311            | 702,860           | 758,171           |
| FUND BALANCES  | <u>119,305</u>    | <u>--</u>         | <u>119,305</u>    |
|  | <u>\$ 174,616</u> | <u>\$ 702,860</u> | <u>\$ 877,476</u> |

See accompanying notes and independent accountants' review report.

## MONTEVALLE OF SCOTTS VALLEY, INC.

### Statement of Revenues, Expenses, and Changes in Fund Balances Year Ended July 31, 2023

|   | Operating<br>Fund | Reserve<br>Fund | Total             |
|---|-------------------|-----------------|-------------------|
| <b>REVENUES</b>                             |                   |                 |                   |
| Assessments                                 | \$ 604,560        | \$ 605,258      | \$ 1,209,818      |
| Interest income                             | 980               | 990             | 1,970             |
| Lodge and mill income                       | 4,685             | --              | 4,685             |
| Utility access                              | 17,102            | --              | 17,102            |
| Other income                                | 7,942             | --              | 7,942             |
|   | <u>635,269</u>    | <u>606,248</u>  | <u>1,241,517</u>  |
| <b>EXPENSES</b>                             |                   |                 |                   |
| Administrative and office                   | 21,320            | --              | 21,320            |
| Committees                                  | 9,112             | --              | 9,112             |
| Depreciation                                | 8,728             | --              | 8,728             |
| Income taxes                                | 5,816             | --              | 5,816             |
| Insurance                                   | 39,588            | --              | 39,588            |
| Janitorial                                  | 27,695            | --              | 27,695            |
| Landscape and grounds                       | 52,491            | --              | 52,491            |
| Legal and professional fees                 | 28,804            | --              | 28,804            |
| Payroll costs                               | 351,543           | --              | 351,543           |
| Repairs and maintenance                     | 46,103            | --              | 46,103            |
| Reserve study                               | 750               | --              | 750               |
| Reserve expenditures                        | --                | 606,248         | 606,248           |
| Utilities                                   | 77,618            | --              | 77,618            |
|   | <u>669,568</u>    | <u>606,248</u>  | <u>1,275,816</u>  |
| <b>Deficiency of revenues over expenses</b> | (34,299)          | --              | (34,299)          |
| <b>Fund balances, beginning of year</b>     | <u>153,604</u>    | <u>--</u>       | <u>153,604</u>    |
| <b>Fund balances, end of year</b>           | <u>\$ 119,305</u> | <u>\$ --</u>    | <u>\$ 119,305</u> |

See accompanying notes and independent accountants' review report.

## MONTEVALLE OF SCOTTS VALLEY, INC.

### Statement of Cash Flows Year Ended July 31, 2023

|   | Operating<br>Fund | Reserve<br>Fund | Total       |
|---|-------------------|-----------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                 |             |
| Deficiency of revenues over expenses  | \$ (34,299)       | \$ --           | \$ (34,299) |
| Adjustments to reconcile the deficiency of revenues<br>over expenses to cash flows from operating activities: |                   |                 |             |
| Depreciation  | 8,728             | --              | 8,728       |
| (Increase) decrease in:   |                   |                 |             |
| Assessments receivable  | 1,147             | --              | 1,147       |
| Accounts receivable, other  | 1,132             | --              | 1,132       |
| Prepaid insurance   | (990)             | --              | (990)       |
| Prepaid expenses  | (1,290)           | --              | (1,290)     |
| Right-of-use asset, net   | (17,036)          | --              | (17,036)    |
| Due between funds   | (1,585)           | 1,585           | --          |
| Increase (decrease) in:   |                   |                 |             |
| Accounts payable  | (1,648)           | 3,438           | 1,790       |
| Credit card expenses  | 3,448             | --              | 3,448       |
| Prepaid assessments   | 956               | --              | 956         |
| Payroll liabilities, accrued vacation and expenses  | (11,509)          | --              | (11,509)    |
| Income taxes payable  | (96)              | --              | (96)        |
| Lease liability   | 17,036            | --              | 17,036      |
| Contract liabilities (assessments received in advance)  |                   |                 |             |
| Reserve fund  | --                | 4,582           | 4,582       |
| Net cash provided (used) by operating activities  | (36,006)          | 9,605           | (26,401)    |
| Cash and Cash Equivalents, beginning  | 106,748           | 694,502         | 801,250     |
| Cash and Cash Equivalents, ending   | \$ 70,742         | \$ 704,107      | \$ 774,849  |
| Supplemental disclosure: Income taxes paid  | \$ 5,912          | \$ --           | \$ 5,912    |

See accompanying notes and independent accountants' review report.



## MONTEVALLE OF SCOTTS VALLEY, INC.

### NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2023

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations:** Montevale of Scotts Valley, Inc. (the "Association") was incorporated on July 16, 1968, in the State of California, as a nonprofit mutual benefit corporation. The Association provides management services, maintenance, preservation and control of the common area, certain easements and access areas of lots located in the area commonly known as Montevale, which consists of 220 units located in Scotts Valley, California. All policy decisions are formulated by the Board of Directors. Major decisions are referred to the general membership before action is taken.

#### Accounting Policies

**Accounting Method:** The financial statements of the Association are prepared using the accrual method of accounting. The Association uses fund accounting, which requires that funds be classified separately for accounting and reporting purposes. Financial resources are classified for accounting and reporting purposes into the funds established according to their nature and purpose. The operating fund is used to account for financial resources available for the general operations of the Association. The reserve fund is used to accumulate financial resources designated for future major repairs and replacements.

**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. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the reserve fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is that they may retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. The Association may also levy special assessments for capital improvements of the Association's common area, and to defray in whole or in part any deficit which the Association may incur in the performance of its duties and the discharge of its obligations.

**Assessments Receivable:** Assessments receivable (member assessments) are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary since probable uncollectible accounts are immaterial.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents:** For purposes of the statements of cash flows, cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less.

## MONTEVALLE OF SCOTTS VALLEY, INC.

### NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2023

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property and Equipment:** Real property and common areas and related improvements to such property that the Association is responsible for are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. They are instead charged directly either to the operating or reserve funds in the period they are incurred.

The Association capitalizes personal property for the common area at cost and depreciates it using the straight line method over the estimated useful lives of the depreciable assets, ranging from 5 to 10 years. Depreciation expense for the year was \$8,728.

Property and equipment, net consists of the following at July 31, 2023:

|                               |    |                 |
|-------------------------------|----|-----------------|
| Furniture and equipment       | \$ | 96,154          |
| Less accumulated depreciation |    | <u>(73,161)</u> |
|                               | \$ | <u>22,993</u>   |

**Contract Liabilities (Assessments received in advance - reserve fund):** The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance - reserve fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve assessments. The balance of contract liabilities (assessments received in advance - reserve fund) as of the beginning and end of the year are \$682,263 and \$686,845, respectively.

**New accounting pronouncement:** The Association has adopted Financial Accounting Standard Board (FASB) Accounting Standard codification (ASC 842), Leases, with a date of initial application of August 1, 2022. For leases with a lease term greater than one year, the Association recognizes a lease asset for its right to use the underlying leased asset and a lease liability for the corresponding lease obligation. The Association determines whether an arrangement is or contains a lease at contract inception. Operating leases with a duration greater than one year are included in operating lease right-of-use assets and operating lease liabilities in the Association's balance sheet as of July 31, 2023.

Operating lease right-of-use (ROU) assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, the Association uses a risk-free rate of a period comparable with that of the lease term. The Association considers the lease term to be the noncancellable period that it has the right to use the underlying asset, including all periods covered by an option to (1) extend the lease if the Association is reasonably certain to exercise the option, (2) terminate the lease if the Association is reasonably certain not to exercise that option, and (3) extend, or not to terminate, the lease in which exercise of the option is controlled by the lessor.

## MONTEVALLE OF SCOTTS VALLEY, INC.

### NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2023

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#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**New accounting pronouncement (Continued):** The operating lease right-of-use assets also include any lease payments made and exclude lease incentives received or receivable. Lease expense is recognized on a straight-line basis over the expected lease term. Variable lease expenses are recorded when incurred.

#### NOTE 2. INCOME TAXES

Associations may be taxed as either a homeowners association or as a regular corporation. For the current year the Association chose to file as a regular corporation using form 1120, subject to Internal Revenue Code Section 277. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings and earnings from commercial operations, at a federal rate of 21% and a California rate of 8.84%. Certain expenses were allocated to offset a portion of the taxable income. The Association is exempt with regards to the minimum franchise fee imposed on corporations.

The FASB issued guidance that clarifies the accounting for uncertainty in income taxes recognized in an association's financial statements. Using that guidance tax positions initially need to be recognized in the financial statements when it is more likely than not the positions will be sustained upon examination by the tax authorities. As of July 31, 2023, the Association has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

#### NOTE 3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregated approximately \$686,845, are presented on the accompanying balance sheet as a contract liability (assessments received in advance - reserve fund) at July 31, 2023, and are generally not available for operating purposes.

The Association engaged an independent firm specializing in reserve studies for community associations, which conducted a study in 2023 to estimate the remaining useful lives and replacement costs of the common property components. The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the reserve fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

## MONTEVALLE OF SCOTTS VALLEY, INC.

### NOTES TO FINANCIAL STATEMENTS

Year Ended July 31, 2023

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#### NOTE 4. LEASES

The Association leases a copier under a non-cancellable operating lease that expires August 31, 2026. Lease expense amounted to \$5,748 for the year ended July 31, 2023.

##### Other Information

|  |          |
|--|----------|
| Cash paid for amounts included in the measurement of lease liabilities |          |
| Operating cash flows from operating leases                             | \$ 5,748 |
| ROU assets obtained in exchange for new operating lease liabilities    | 22,267   |
| Weighted-average remaining lease term in years for operating leases    | 3.08     |
| Weighted-average discount rate for operating leases                    | 2.66%    |

##### Maturity Analysis

|                               |                  |
|-------------------------------|------------------|
| 2024                          | \$ 5,748         |
| 2025                          | 5,748            |
| 2026                          | 5,748            |
| 2027                          | 479              |
| Total undiscounted cash flows | 17,723           |
| Less: present value discount  | (687)            |
| Total lease liabilities       | <u>\$ 17,036</u> |

#### NOTE 5. UNINSURED CASH

The Association maintains cash balances at two financial institutions and, from time to time during the year, the cash balances may be in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). In the event of insolvency by the financial institution, deposits in excess of insured amounts are potentially subject to unrecoverable loss.

#### NOTE 6. SUBSEQUENT EVENTS

Management has evaluated its July 31, 2023, financial statements for subsequent events through November 9, 2023, the date of the issuance of the financial statements. The Association is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**MONTEVALLE OF SCOTTS VALLEY, INC.**

Schedule I – Supplementary Information on Future Major Repairs and Replacements (Compiled)  
July 31, 2023

An independent firm conducted a study in 2023 to estimate useful lives and the replacement costs of the common property components. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

| Components                | Estimated<br>Remaining Useful<br>Lives (Years) | Estimated Current<br>Replacement Cost |
|---------------------------|--|---------------------------------------|
| Asphalt                   | 1 to 7   | \$ 1,256,500                          |
| Concrete repairs          | 1  | 31,941                                |
| Well and pumps            | 1 to 2   | 208,094                               |
| Mechanical and electrical | 1 to 6   | 187,584                               |
| Landscaping               | 0 to 5   | 31,852                                |
| Fountain, lakes and ponds | 0 to 6   | 107,149                               |
| Fences, rails and walls   | 1 to 20  | 134,396                               |
| Structural and decks      | 1 to 41  | 127,965                               |
| Roofing                   | 1 to 35  | 7,685                                 |
| Recreation area           | 1 to 15  | 68,517                                |
| Old mill, exterior        | 0 to 28  | 204,716                               |
| Old mill, interior        | 1 to 19  | 163,829                               |
| Old mill, equipment       | 1 to 20  | 122,266                               |
| Old mill, electrical      | 1 to 23  | 24,875                                |
| Lodge, exterior           | 0 to 39  | 72,388                                |
| Lodge, interior           | 1 to 11  | 54,276                                |
| Lodge, equipment          | 1 to 8   | 13,658                                |
| Lodge, electrical         | 1 to 14  | 12,261                                |
| South pool building       | 0 to 34  | 208,052                               |
| South, pool and spa       | 1 to 11  | 131,445                               |
| North pool building       | 1 to 3   | 22,936                                |
| North, pool and spa       | 0 to 15  | 77,603                                |
| Sewer system              | 0 to 49  | 2,244,019                             |
| Others                    | 1 to 25  | 32,924                                |
|                           |  | \$ 5,546,931                          |