

***Seagate Village Community Association***

*c/o CHAMPS, a Division of AAM, LLC*

5731 Palmer Way • Suite B  
Carlsbad, California 92010-7247  
(760)603-0501 • FAX (760)603-0505

**DATE:** August 15, 2017  
**TO:** All Homeowners  
**FROM:** The Board of Directors

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In accordance with California Civil Code, enclosed please find a copy of the Association's financial review for the twelve months ending June 30, 2017.

Please call CHAMPS (760)603-0501 should you have any questions.



**SEAGATE VILLAGE COMMUNITY ASSOCIATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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# MICHAEL J. FERRARA

*Certified Public Accountant*

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## INDEPENDENT ACCOUNTANT'S REPORT

### **Seagate Village Community Association**

Reviewed Financial Statements  
June 30, 2017

To the Board of Directors and Members:

I have reviewed the accompanying financial statements of Seagate Village Community Association, which comprise the balance sheet as of June 30, 2017, and the related statements of revenues and expenses, 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 the Association's management and board of directors. 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, I do not express such an opinion.

#### **Management's Responsibility for the Financial Statements**

Management and the board of directors are responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement whether due to fraud or error.

#### **Accountant's Responsibility**

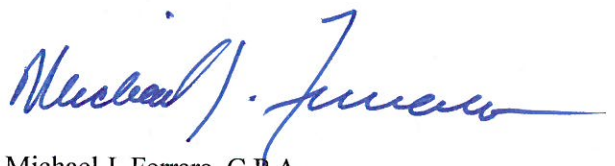
My responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am 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. I believe that the results of my procedures provide a reasonable basis for my conclusion.

#### **Accountant's Conclusion on the Financial Statements**

Based on my review, I am 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 9 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. I have not audited or reviewed the required supplemental information, and, accordingly, I do not express an opinion or provide any assurance on it.



Michael J. Ferrara, C.P.A.

July 11, 2017

Seagate Village Community Association  
Balance Sheet  
June 30, 2017

<u>Assets</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash	\$ 60,925	\$ 348,139	\$ 409,064
Investments		55,000	55,000
Assessments Receivable	3,356		3,356
Accrued Interest Receivable		182	182
Prepaid Expenses	2,567		2,567
Prepaid Income Taxes	567		567
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 67,415</u>	<u>\$ 403,321</u>	<u>\$ 470,736</u>
<u>Liabilities</u>			
Accounts Payable	\$ 11,364	\$ -	\$ 11,364
Prepaid Assessments	4,993		4,993
	<hr/>	<hr/>	<hr/>
Total Liabilities	16,357	-	16,357
<u>Fund Balance</u>	<hr/> 51,058	<hr/> 403,321	<hr/> 454,379
Total Liabilities & Fund Balance	<u>\$ 67,415</u>	<u>\$ 403,321</u>	<u>\$ 470,736</u>

See Accompanying Notes and Independent Accountant's Report

Seagate Village Community Association  
Statement of Revenues and Expenses  
For the Year Ended June 30, 2017

	Operating Fund	Replacement Fund	Total
<b>Revenues:</b>			
Regular Assessments	\$ 331,224	\$ 151,500	\$ 482,724
Interest		1,759	1,759
Other	2,195		2,195
<b>Total Revenues</b>	<b>333,419</b>	<b>153,259</b>	<b>486,678</b>
<b>Expenses:</b>			
<b>Administrative-</b>			
Insurance	17,643		17,643
Legal & Collection	3,006		3,006
Management Contract	29,652		29,652
Other Administrative	6,008	150	6,158
Printing & Postage	8,062		8,062
Reserve Study	1,410		1,410
Review & Tax Preparation	2,190		2,190
Taxes	441		441
<b>Total Administrative</b>	<b>68,412</b>	<b>150</b>	<b>68,562</b>
<b>Maintenance-</b>			
Janitorial	2,570		2,570
Landscape - Contract	94,980		94,980
Landscape - Other	14,937		14,937
Pest Control	9,673		9,673
Plumbing Repairs	3,930		3,930
Pool	4,693		4,693
Repairs & Maintenance			
- Patio Homes	614	1,650	2,264
- Condominiums	8,511	124,756	133,267
- Common/Recreation	5,720	36,491	42,211
Tree Trimming	12,860		12,860
<b>Total Maintenance</b>	<b>158,488</b>	<b>162,897</b>	<b>321,385</b>
<b>Utilities-</b>			
Gas & Electricity	24,032		24,032
Telephone	2,998		2,998
Trash Removal	15,618		15,618
Water & Sewer	53,515		53,515
<b>Total Utilities</b>	<b>96,163</b>	<b>-</b>	<b>96,163</b>
<b>Total Expenses</b>	<b>323,063</b>	<b>163,047</b>	<b>486,110</b>
<b>Excess Revenues / (Expenses)</b>	<b>\$ 10,356</b>	<b>\$ (9,788)</b>	<b>\$ 568</b>

See Accompanying Notes and Independent Accountant's Report

Seagate Village Community Association  
Statement of Changes in Fund Balances  
For the Year Ended June 30, 2017

	Operating Fund	Replacement Fund	Total
Fund Balance - Beginning of Year	\$ 40,702	\$ 413,109	\$ 453,811
Excess Revenues / (Expenses)	10,356	(9,788)	568
Fund Balance - End of Year	\$ 51,058	\$ 403,321	\$ 454,379

See Accompanying Notes and Independent Accountant's Report

Seagate Village Community Association  
Statement of Cash Flows  
For the Year Ended June 30, 2017

	Operating Fund	Replacement Fund	Total
Cash Flows - Operating Activities:			
Regular Assessments	\$ 331,441	\$ 151,500	\$ 482,941
Interest Received		1,709	1,709
Other Income Received	2,195		2,195
Administrative Disbursements	(70,585)	(150)	(70,735)
Maintenance Disbursements	(158,288)	(162,897)	(321,185)
Utility Disbursements	(95,467)		(95,467)
<b>* Net Inc/(Dec) in Cash</b>			
<b>From Operating Activities</b>	9,296	(9,838)	(542)
Cash Flows - Investing Activities:			
Purchase of CDs		479,438	479,438
Maturity of CDs		(320,675)	(320,675)
Net Increase in Cash			
From Investing Activities	-	158,763	158,763
Total Cash - Beginning of Year	51,629	199,214	250,843
Total Cash - End of Year	\$ 60,925	\$ 348,139	\$ 409,064
Reconciliation of Excess Revenues/(Expenses) to Net Inc/(Dec) in Cash from Operating Activities:			
Excess Revenues / (Expenses)	\$ 10,356	\$ (9,788)	\$ 568
Adjustments to Reconcile Excess Revenues/(Expenses) to Net Inc/(Dec) in Cash from Operating Activities-			
Decrease in Assessments Receivable	15		15
Increase in Accrued Interest Receivable		(50)	(50)
Increase in Prepaid Insurance	(2,567)		(2,567)
Decrease in Prepaid Income Taxes	441		441
Increase in Accounts Payable	849		849
Increase in Prepaid Assessments	202		202
<b>* Net Inc/(Dec) in Cash</b>			
<b>From Operating Activities</b>	\$ 9,296	\$ (9,838)	\$ (542)

See Accompanying Notes and Independent Accountant's Report



Seagate Village Community Association  
(A Nonprofit Corporation)

Notes to Financial Statements  
June 30, 2017

**Note 1. Summary of Significant Accounting Policies**

Seagate Village Community Association is a statutory condominium type common interest realty association and was organized in California on September 10, 1982, as a nonprofit mutual benefit corporation. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association has 127 patio homes and 78 condominiums located in San Diego County, California.

The Association's financial statements are presented on the accrual basis of accounting. The accrual basis records assessments as revenues when due rather than when received and expenses when incurred rather than when paid.

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally for on-going repairs and maintenance. Disbursements from the replacement fund generally may be made only for designated purposes.

Real property and replacements & improvements to common area real property are not capitalized nor depreciated because the common areas are considered owned by the unit owners and not the Association.

Per the provisions of Financial Accounting Standards Board of the American Institute of Certified Public Accountants, regarding "Statement of Cash Flows", cash equivalents consist primarily of certificates of deposits (CDs) and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over ninety days are considered investments. The Association's method of accounting is to consider all cash, cash equivalents and money market funds together as cash funds.

Certificates of deposits and other investments with original maturities over ninety days are considered "held to maturity" investments. Held to maturity investments are carried at cost.

The Board's policy is to allocate to the replacement fund interest earned on replacement fund cash and investment accounts. Taxes on all interest and other nonexempt income are paid from the operating fund.

Subsequent events have been evaluated through the date the financial statements were issued on July 11, 2017.

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

Seagate Village Community Association  
(A Nonprofit Corporation)

Notes to Financial Statements  
June 30, 2017

**Note 2. Fair Value Measurements**

Fair values are measured along the following criteria:

Level 1 Input: Quoted prices in active markets for identical assets

Level 2 Input: Significant observable inputs

Level 3 Input: Significant unobservable inputs

The following methods and assumptions were used to estimate fair value of each class of financial instruments:

Cash & cash equivalents: The carrying amount approximates fair value because of the short term maturities.

Certificates of deposit: The fair value of certificates of deposit is determined based on quoted market prices.

Fair values of the Association's financial instruments as of June 30, 2017 are as follows, and all Certificates of Deposit values are classified as Level 1 Inputs:

	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Cash & Cash Equivalents	\$ 409,064	\$ 409,064
Certificates of Deposit	55,000	54,992

**Note 3. Income Tax Status**

The Association is taxed as a homeowners association under Internal Revenue Service Code Section 528. Under this section, the Association is generally taxed only on nonexempt income, such as interest earnings. Tax expenses for the year ended June 30, 2017 are \$333 Federal and \$108 State. At the year-end, \$490 Federal taxes and \$77 California taxes are prepaid. In evaluating the Association's tax position and accruals, the Association's Governance believes that estimates are appropriate based on the current facts and circumstances. The Association's federal income tax returns are generally subject to examination by the Internal Revenue Service for three years after they were filed; and for California tax returns by the Franchise Tax Board generally for four years after they were filed.

**Note 4. Assessments**

The annual budget and owners' assessments are determined by the Board of Directors and under certain conditions, may be approved by the owners. The Association retains excess funds, if any, for expenses in future years. Regular assessments to patio homes owners were \$111.00 per unit per month and assessments to condominium owners were \$335.00 per unit per month for the year ended June 30, 2017. From these amounts, \$12,625 per month was designated to the replacement fund.

Seagate Village Community Association  
(A Nonprofit Corporation)

Notes to Financial Statements  
June 30, 2017

**Note 5. Assessments Receivable**

The Association's policy is to place liens on the properties of owners whose assessments are in arrears, and retain legal counsel, if necessary, to collect delinquent assessments. As of June 30, 2017, there are \$3,356 of assessments and charges receivable, and \$4,993 of assessments paid in advance.

**Note 6. Replacement Fund**

The Association has established a policy of assessing members monthly and accumulating funds for major repairs and replacements based on current estimated replacement costs. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

The Board of Directors commissioned an updated reserve study to determine the adequacy of the Association's major repair & replacement funding program as of June 30, 2017. The estimates were obtained from specialists who inspected the property for a prior study. The table included in the supplementary information on page 9 regarding major repairs and replacements is based on the reserve study.

Funds are being accumulated in the replacement fund based on budgets and estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may or 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 7. Commitments**

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' notice.

**Note 8. Concentration of Credit Risk**

The Association maintains some of its cash in a UBS AG deposit account that is not federally insured. The Association has not experienced any losses in the past. The Board of Directors believes the Association is not exposed to any significant credit risk related to UBS AG deposit account.

SUPPLEMENTAL  
(Not Audited, Not Reviewed)

Seagate Village Community Association

Supplementary Information on Future  
Repairs and Replacements

June 30, 2017

(Not Audited, Not Reviewed)

The Board of Directors commissioned an updated reserve study to determine the adequacy of the Association's major repair & replacement funding program as of June 30, 2017. The estimates were obtained from specialists who inspected the property for a prior study.

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

<u>Components</u>	<u>Estimated Remaining Lives/Years</u>	<u>Estimated Current Replacement Cost</u>	<u>Current Annual Reserve Requirement</u>	<u>Actual Replacement Fund Balance at 6/30/17</u>
Patio Homes -				\$ -
Painting/Staining	1	4,330	866	-
Asphalt & Concrete	1 - 18	258,880	14,730	-
Fencing, Gates & Rails	4 - 28	69,420	3,499	-
Unallocated	-	-	-	86,416
Subtotal		<u>332,630</u>	<u>19,095</u>	<u>86,416</u>
Recreation Facilities -				
Fencing, Gates & Rails	2 - 17	70,400	2,895	-
Landscaping	2 - 4	38,700	4,053	-
Lighting	19 - 19	19,470	974	-
Miscellaneous	1 - 18	41,000	2,602	-
Painting	1 - 3	10,280	1,803	-
Pool & Spa	1 - 14	55,150	5,691	-
Roofing	27	6,590	188	-
Security & Fire Systems	11	17,300	1,081	-
Tennis Courts/ Rec Facility	2	9,270	1,854	-
Unallocated	-	-	-	68,569
Subtotal		<u>268,160</u>	<u>21,141</u>	<u>68,569</u>
Condominiums -				
Asphalt & Concrete	1 - 14	156,120	8,735	-
Fencing, Gates & Rails	15 - 24	225,570	8,997	-
Lighting	18	7,000	350	-
Miscellaneous	1 - 30	49,440	1,964	-
Painting & Repairs	3 - 9	216,390	22,033	-
Roofing	1 - 2	370,090	20,749	-
Unallocated	-	-	-	244,538
Subtotal		<u>1,024,610</u>	<u>62,828</u>	<u>244,538</u>
Not Allocated	-	-	-	3,798
		<u>\$ 1,625,400</u>	<u>\$ 103,064</u>	<u>\$ 403,321</u>

The updated reserve study was prepared with the "straight line in years" method of funding assumption. It assumed an inflation rate of 3.0% for future replacement costs of component items.

According to the updated reserve study, the fully funded balance as of June 30, 2017 is \$951,860 and the actual replacement fund balance is \$403,321. The Association's budgeted allocations to the replacement fund for the fiscal year end June 30, 2018 is \$151,499.

See Independent Accountant's Review Report