

**SEA VIEW VILLAS  
CONDOMINIUM ASSOCIATION**

***FINANCIAL STATEMENTS***

**DECEMBER 31, 2016**

**WITH**

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT  
AND SUPPLEMENTARY INFORMATION**

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## **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

### **President**

### **Sea View Villas Condominium Association**

We have reviewed the accompanying balance sheet of Sea View Villas Condominium Association (the "Association"), a California non-profit corporation, as of December 31, 2016, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. 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 taken as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Association's accumulated amounts in the replacement fund may not be sufficient for funding major repairs and replacements over the remaining useful lives of the common area components as the need arises.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information included in the Schedule of Operating Fund Revenues and Expenses—Budget and Actual on pages 8-9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information (except for the budget information, which was not subjected to the inquiry and analytical procedures applied in the review of the basic financial statements but was compiled from information that is the representation of management, on which we do not express an opinion or provide any assurance) has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Accounting principles generally accepted in the United States of America require that the information about future repairs and replacements of common property on page 10 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, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the required supplementary information without audit or review, and accordingly, we do not express an opinion or provide any assurance on it.

Lake Forest, California

August 18, 2017

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**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2016**

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**ASSETS**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 53,964	\$ 205,886	\$ 259,850
Assessments receivable	235	-	235
Due (to) from other funds	2,183	(2,183)	-
	<u>\$ 56,382</u>	<u>\$ 203,703</u>	<u>\$ 260,085</u>

**LIABILITIES AND FUND BALANCE**

<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 3,460	\$ -	\$ 3,460
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND BALANCE</b>	<u>52,922</u>	<u>203,703</u>	<u>256,625</u>
	<u>\$ 56,382</u>	<u>\$ 203,703</u>	<u>\$ 260,085</u>

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**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Assessments - regular	\$ 131,436	\$ 171,504	\$ 302,940
Assessments - special (see note 3)	6,996	-	6,996
Interest	267	84	351
Other	1,261	-	1,261
	<u>139,960</u>	<u>171,588</u>	<u>311,548</u>
<b>EXPENSES</b>			
General and administrative	33,678	-	33,678
Maintenance	36,674	-	36,674
Repairs	31,049	364,737	395,786
Utilities	44,893	-	44,893
	<u>146,294</u>	<u>364,737</u>	<u>511,031</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(6,334)	(193,149)	(199,483)
<b>BEGINNING FUND BALANCE</b>	<u>59,256</u>	<u>396,852</u>	<u>456,108</u>
<b>ENDING FUND BALANCE</b>	<u><u>\$ 52,922</u></u>	<u><u>\$ 203,703</u></u>	<u><u>\$ 256,625</u></u>

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**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

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	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses	\$ (6,334)	\$ (193,149)	\$ (199,483)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
(Increase) decrease in:			
Assessment receivable	1,015	-	1,015
Increase (decrease) in:			
Accounts payable and accrued expenses	585	-	585
Other liabilities	-	-	-
	<u>(4,734)</u>	<u>(193,149)</u>	<u>(197,883)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,734)	(193,149)	(197,883)
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>58,698</u>	<u>399,035</u>	<u>457,733</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u><u>\$ 53,964</u></u>	<u><u>\$ 205,886</u></u>	<u><u>\$ 259,850</u></u>

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## SEA VIEW VILLAS CONDOMINIUM ASSOCIATION SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED DECEMBER 31, 2016

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### **Organization**

Sea View Villas Condominium Association (the “Association”) was incorporated in California on November 22, 1999. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 33 residential units located in Hermosa Beach, California.

### **Date of Management’s Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 18, 2017, the date the financial statements were available to be issued.

### **Fund Accounting**

The Association’s governing documents provide for certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on 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 general operations of the Association.

***Replacement Fund*** – This fund is used to accumulate financial resources designated for future major repairs and replacements.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that may 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**

Cash and cash equivalents consist of highly liquid investments with maturities of three months or less when purchased.

### **Concentration of Credit Risk**

Cash balances are maintained at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000.

### **Interest Earnings**

All interest earnings and premium amortization are allocated to and recorded in the operating and replacement funds, in accordance with balances within each fund.

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## SEA VIEW VILLAS CONDOMINIUM ASSOCIATION SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### **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's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Assessments collected in advance are deferred and recognized as revenue in the year in which the related services are rendered.

### **Property and Equipment**

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. Property and equipment acquired by the Association are recorded at cost. Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

### **Income Taxes**

The Association is classified as a nonexempt membership organization for both federal and state income tax purposes for the year ended December 31, 2016. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

The Association has elected to file as a membership homeowners association in accordance with Internal Revenue Code Section §277. Under this section, the Association may exclude from taxation membership income, which generally consist of revenue from uniform assessments to owners. Therefore, non-membership income (such as interest income less related expenses) is subject to Federal tax at the rate of 30% and state income tax of 8.84%. For the year ended December 31, 2016, a provision has been made for Federal and state taxes resulting no tax liability.

As of December 31, 2016, the tax years that remain subject to examination by taxing authorities begin with 2013.

### **Replacement Fund**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are kept in separate accounts and are generally not available for normal operations. Disbursements are to be made only if specifically approved by the Board of Directors.

On an annual basis, the Board of Directors conducts an internal study (the "Study") of the Association's common property assets consisting of a visual inspection of the assets and any available vendor cost information, for the purpose of estimating the remaining useful lives and replacement costs of those assets. The table included in the accompanying unaudited supplemental information on Future Major Repairs and Replacements is based upon the study.



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**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

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**NOTE 1: SUPPLEMENTAL CASH FLOW INFORMATION**

During the year ended December 31, 2016 income taxes of \$10 were paid from the operating fund.

**NOTE 2: COMMITMENTS AND CONTINGENCIES**

**Replacement Fund**

The Association 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 amounts previously accumulated in the repair and replacement fund. Accordingly, the annual recommended funding requirement of approximately \$172,000 has been included in the budget for the year ending December 31, 2017. Funds are accumulated in the repair and replacement fund based on estimates of future needs for repairs and replacements of common area property components.

The Association has incurred substantial expenses as a result of waterproofing and plumbing issues; and has sustained significant repair costs to the woodwork. Furthermore, in recent years the board of directors has incorporated the aforementioned, and others components as discovered through inspection of Association property, to the reserve study, which has resulted in a larger estimated current replacement cost.

The high cost of repairs and budget constraints has slowed the Association's ability to contribute to the replacement fund to the desired levels and to ease the impact of the unforeseen cost of recent repairs and replacements.

As indicated in the reserve study, the Board of Directors has adopted a plan to fund the Association's replacement to 30% of theoretically Ideal balance within the next 15 to 16 years, and achieving 40% funding by the year 2039.

For these reasons, and that actual expenditures and investment income may vary from the estimated amounts, and the variations may be material, amounts being accumulated in the replacement fund may not be sufficient to meet all future repairs and replacements. If additional funds are necessary, the Association has the right to increase regular assessments, approve special assessments, or delay major repairs and replacements until the funds are available.

**Litigation**

At times, the Association is involved in litigation arising out of the normal course of business. Management, after consultation with outside counsel, believes there is no likelihood that the Association will incur any material loss as a result of these lawsuits. Therefore, no provision for loss resulting from these lawsuits has been made in the accompanying financial statements.

**Commitments**

The Association has various contract services including elevator and landscape maintenance, janitorial, pest control, trash removal and pool services.

**NOTE 3: SPECIAL ASSESSMENTS**

During the year ended December 31, 2016, the Association members paid special assessments of \$6,996 to recover the shortfall from 2014.

**SUPPLEMENTARY INFORMATION**  
*(Unaudited)*

**DECEMBER 31, 2016**

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**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION**  
**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(UNAUDITED)**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
	<i>(Compiled)</i>		<i>(UNFAVORABLE)</i>
			<i>(Compiled)</i>
<b>REVENUES</b>			
Assessments	\$ 302,940	\$ 302,940	\$ -
Special assessments (see note 3)	-	6,996	6,996
Late Charges	1,000	961	(39)
Interest	100	351	251
Other	150	300	150
	<u>304,190</u>	<u>311,548</u>	<u>7,358</u>
<b>EXPENSES</b>			
<b>GENERAL AND ADMINISTRATIVE</b>			
Accounting and Audit	\$ 2,210	\$ 2,190	\$ 20
Insurance	14,746	14,841	(95)
Legal	5,000	13,080	(8,080)
License and permits	772	512	260
Locks and keys	50	-	50
Management extras	510	695	(185)
Miscellaneous supplies	240	340	(100)
Office supplies	1,670	1,531	139
Postage	400	405	(5)
Taxes - federal	55	-	55
Taxes - state	10	10	-
Miscellaneous	40	74	(34)
	<u>\$ 25,703</u>	<u>\$ 33,678</u>	<u>\$ (7,975)</u>
<b>MAINTENANCE</b>			
Boiler	\$ 650	\$ 600	\$ 50
Elevator	2,508	850	1,658
Janitorial	7,380	7,380	-
Landscape	7,800	7,800	-
Management and bookkeeping	8,640	8,640	-
Pest control	1,704	1,584	120
Pool and spa	2,000	2,000	-
Termite control	1,500	1,500	-
Trash	6,323	6,320	3
	<u>\$ 38,505</u>	<u>\$ 36,674</u>	<u>\$ 1,831</u>

**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION**  
**SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(UNAUDITED)**

	<b>BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
	<i>(Compiled)</i>		<b>FAVORABLE</b>
			<b>(UNFAVORABLE)</b>
			<i>(Compiled)</i>
<b>REPAIRS</b>			
Boiler	\$ 3,000	\$ (630)	\$ 3,630
Electrical	1,500	200	1,300
Elevator	200	3,275	(3,075)
Furniture and equipment	125	-	125
Landscape	1,000	80	920
Metal	125	-	125
Painting	200	100	100
Plumbing	3,750	20,517	(16,767)
Pools and spa	4,000	2,816	1,184
Roof	-	1,900	(1,900)
Security and fire system	2,034	-	2,034
Security gates	200	641	(441)
Stucco	400	-	400
Tree trimming	1,755	1,250	505
Wood	700	-	700
Other repairs	600	900	(300)
	<u>\$ 19,589</u>	<u>\$ 31,049</u>	<u>\$ (11,460)</u>
<b>UTILITIES</b>			
Electricity	\$ 12,000	\$ 9,686	\$ 2,314
Gas	18,660	13,563	5,097
Telephone	2,200	2,387	(187)
Water / sewer	<u>15,989</u>	<u>19,257</u>	<u>(3,268)</u>
	<u>\$ 48,849</u>	<u>\$ 44,893</u>	<u>\$ 3,956</u>
<b>MAINTENANCE AND REPAIR - REPLACEMENT FUND</b>			
Awnings	\$ -	\$ 1,417	\$ (1,417)
Boiler equipment	-	2,600	(2,600)
Metal gutters and downspouts	-	10,540	(10,540)
Pool and spa	-	500	(500)
Roof replacement	-	244	(244)
Termite treatment	-	36,900	(36,900)
Waterproofing	-	312,536	(312,536)
	<u>\$ -</u>	<u>\$ 364,737</u>	<u>\$ (364,737)</u>

**SEA VIEW VILLAS CONDOMINIUM ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2016  
(UNAUDITED)**

In February 2014, the Board of Directors conducted an internal study of the Association's common property assets consisting of a visual inspection of the assets and any available vendor cost information for the purpose of estimating the remaining useful lives and replacement costs of those assets. The funding program considers an annual inflation rate of 1.5% on the replacement cost; and interest rate of 0.3%, before taxes, on amounts funded for future repairs and replacements. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The Association has not adjusted for changes in the estimated replacement costs since the date of the study.

The following information is based on the study and presents significant information about the components of common property at December 31, 2016. The reserve study should be referred to for a more complete description of the Association's assets and estimates used.

<b>Component</b>	<b>Estimated Remaining Useful Lives (Years)</b>	<b>Estimated Current Replacement Cost</b>	<b>Fund Balance</b>
Roof	2 to 29	\$ 187,980	\$ 13,614
Painting	2 to 9	74,550	5,399
Streets and drives	3 to 7	64,880	4,699
Elevators	4 to 14	101,730	7,367
Awnings	0 to 5	28,450	2,060
Lighting	5 to 26	146,770	10,629
Boilers	0 to 7	21,400	1,550
Plumbing	10 to 11	171,170	12,396
Pool and spa	4 to 7	26,780	1,939
Doors, gates and fencing	12 to 26	120,180	8,704
Railings	12 to 27	156,800	11,356
Gutters	0 to 12	48,600	3,520
Termite control	1	45,920	3,326
Wood bridges	9	59,310	4,295
Waterproofing	0 to 37	1,518,000	109,937
General Areas	0 to 20	40,200	2,911
		<u>\$ 2,812,720</u>	<u>\$ 203,703</u>