

Financial Statement Review (Required Civil Code Sec. 4525)
Crystal Cay Condominium Association

**CRYSTAL CAY
CONDOMINIUM ASSOCIATION**

June 23, 2016

Dear Homeowner,

Enclosed, please find the audited Financial Statements for the Crystal Cay Condominium Association, prepared by the independent accounting firm of Robert A. Owens, C.P.A. for fiscal year end December 31, 2015. Please review this information and keep it with your Homeowner documents.

This report is provided to all Homeowners in accordance with provisions contained in the Association's Governing Documents, and California State Corporations Civil Code 5305.

The report expresses the professional opinion of Certified Public Accountants retained by the Association to prepare the financial report, which fairly represents and discloses the financial position of the Association, and is prepared in accordance with generally accepted principles of Accounting.

The Board of Directors welcomes any comments that residents may have regarding this document and would request that you submit your comments in writing to the management company (address below) for presentation to the Board.

As always, the success of any Association is dependent on the cooperation of all Homeowners.

The Board is very appreciative of your continued support, patience and understanding.

Respectfully,

Board of Directors
Crystal Cay Condominium Association

Enclosure

*Professionally Managed by Amber Property Management
27261 Las Ramblas, Suite 100, Mission Viejo CA 92691
Office: (949) 429-5831 Fax: (949) 429-5933*

CRYSTAL CAY CONDOMINIUM ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2015

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ROBERT A. OWENS, C.P.A.
A PROFESSIONAL ACCOUNTANCY CORPORATION

MEMBER:
AMERICAN INSTITUTE
OF CERTIFIED
PUBLIC ACCOUNTANTS

27792 EL LAZO
LAGUNA NIGUEL, CALIFORNIA 92677
TELEPHONE: (949) 851-5020 • FAX (949) 851-9048
E-MAIL: raocpa@aol.com Web Site: www.raocpa.com

MEMBER:
CALIFORNIA SOCIETY
OF CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Crystal Cay Condominium Association

We have audited the accompanying financial statements of Crystal Cay Condominium Association, which comprise the balance sheet as of December 31, 2015, and the related statements of revenue and expenses and association funds, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crystal Cay Condominium Association as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Robert A. Owens, CPA A PAC

June 21, 2016

CRYSTAL CAY CONDOMINIUM ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2015

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 127,984	\$ 1,154,050	\$ 1,282,034
Short-Term Investments	-	102,828	102,828
Assessments Receivable	172,561	-	172,561
Less: Allowance For Doubtful Accounts	(152,579)	-	(152,579)
Prepaid Taxes	236	-	236
Prepaid Insurance	625	-	625
Prepaid Expenses	4,708	-	4,708
Fixed Assets	18,805	-	18,805
Accumulated Depreciation	(5,256)	-	(5,256)
Total Assets	\$ 167,084	\$ 1,256,878	\$ 1,423,962
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	\$ 12,688	\$ -	\$ 12,688
Prepaid Assessments	14,483	-	14,483
Income Taxes Payable	107	-	107
Total Liabilities	27,278	-	27,278
Commitments			
Association Funds	139,806	1,256,878	1,396,684
Total Liabilities And Association Funds	\$ 167,084	\$ 1,256,878	\$ 1,423,962

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

CRYSTAL CAY CONDOMINIUM ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	\$ 513,480	\$ 566,412	\$ 1,079,892
Interest Income	-	2,950	2,950
Bad Debt Recovery	24,421	-	24,421
Other Income	14,682	-	14,682
Total Revenue	552,583	569,362	1,121,945
EXPENSES			
Landscape Maintenance	87,933	-	87,933
Management Fees	50,496	-	50,496
Administrative	28,084	-	28,084
Legal And Audit	4,188	-	4,188
Insurance	45,416	-	45,416
Pool	17,270	-	17,270
Rubbish Collection	61,256	-	61,256
Pest Control	19,150	10,260	29,400
General Maintenance	92,850	-	92,850
Reserve Study	680	-	680
Depreciation	2,686	-	2,686
Gas	10,460	-	10,460
Electricity	28,194	-	28,194
Water	10,681	-	10,681
Security	9,448	-	9,448
Custodial	5,056	-	5,056
Fountain	5,672	-	5,672
Building Repair	22,875	6,860	29,735
Gutters	-	3,960	3,960
Lighting and Electrical	6,841	2,080	8,921
Plumbing	136,494	12,207	148,701
Roof and Decks	5,482	121,381	126,863
Income Tax	227	-	227
Total Expenses	661,439	156,738	808,177
Excess (Deficiency) of Revenue Over Expenses	(98,856)	412,624	313,768
Association Funds Balance Beginning of Year	228,853	854,063	1,082,916
Interfund Transfers	9,809	(9,809)	-
Association Funds Balance End of Year	\$ 139,806	\$ 1,256,878	\$ 1,396,684

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

CRYSTAL CAY CONDOMINIUM ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows From Operating Activities:			
Cash Received From Members	\$ 525,101	\$ 566,412	\$ 1,091,513
Cash Paid To Suppliers of Goods And Services	(652,202)	(182,884)	(835,086)
Interest Received	-	2,961	2,961
Income Taxes Paid	(725)	-	(725)
Net Cash Provided By (Used In) Operating Activities	(127,826)	386,489	258,663
Cash Flows From Investing Activities:			
Purchase of Short-Term Investments	-	(125)	(125)
Purchase Of Fixed Asset	(9,809)	-	(9,809)
Net Cash Used In Investing Activities	(9,809)	(125)	(9,934)
Cash Flows From Financing Activities:			
Interfund Transfers	9,809	(9,809)	-
Net Increase (Decrease) In Cash And Cash Equivalents	(127,826)	376,555	248,729
Cash And Cash Equivalents At Beginning of Year	255,810	777,495	1,033,305
Cash And Cash Equivalents At End of Year	\$ 127,984	\$ 1,154,050	\$ 1,282,034

RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Excess (Deficiency) of Revenue Over Expenses	\$ (98,856)	\$ 412,624	\$ 313,768
Adjustments To Reconcile Excess (Deficiency) of Revenue Over Expenses To Net Cash Provided By Operating Activities:			
Depreciation	2,686	-	2,686
Change In Assessments Receivable	(16,117)	-	(16,117)
Change In Interest Receivable	-	11	11
Change In Prepaid Insurance	(119)	-	(119)
Change In Prepaid Expenses	(500)	-	(500)
Change In Prepaid Taxes	(236)	-	(236)
Change In Accounts Payable	(3,057)	(26,146)	(29,203)
Change In Prepaid Assessments	(11,365)	-	(11,365)
Change In Income Tax Payable	(262)	-	(262)
Net Cash Provided By (Used In) Operating Activities	\$ (127,826)	\$ 386,489	\$ 258,663

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

CRYSTAL CAY CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

NOTE 1 NATURE OF ORGANIZATION

Crystal Cay Condominium Association was incorporated on October 17, 1983, in the state of California. It is responsible for the operation and maintenance of the common property within the development, which is located in the city of Laguna Niguel, California. The development consists of 303 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Crystal Cay Condominium Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

Fund Accounting

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. |

Property and Equipment

Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements.

Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

Cash Equivalents and Short-term Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

SEE INDEPENDENT AUDITORS' REPORT

CRYSTAL CAY CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, projected to December 31, 2015, indicates the Association's ideal cash replacement fund balance was \$ 1,881,930 at that date. The study recommends a 2016 contribution to the replacement fund of \$ 566,412 (\$ 155.78 per owner per month). The 2016 budgeted contribution is \$ 502,776.

The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 INCOME TAXES

The Association is a corporation that is potentially taxable on all of its net income, including unspent member assessments. However, under state and federal filing elections, the Association may choose to be taxed only on its net non-membership income, which includes interest income.

The State of California allows qualifying homeowner associations to file an election to be taxed under special rules. Under this election, income from members (such as assessments) is exempt from taxation.

Federal law offers a similar election, which must be made annually. However, net non-membership income under this election is taxed at a flat rate of 30%. If the Association chooses to file as a regular corporation, it may still exclude from taxation its net membership income by making certain elections. Tax at the regular corporate tax rate is generally lower. Some of these elections, however, have come under IRS attack and certain issues are yet to be clarified. In 2015, the Association filed as an exempt corporation for federal taxes.

Regardless of how the Association files its taxes, non-membership income (interest) may not be offset with membership expenses (such as common area maintenance costs). That is why the Association's taxable income can be greater than its net income as recorded in the financial statements.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements.

The years open for tax authority examination are 2012 through 2015 for federal purposes and 2011 through 2015 for state purposes. Income taxes for the current year were:

2015 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ -	\$ 217	\$ 10	\$ 227
Less: Credit from prior year return	(236)	(105)	-	(341)
Less: Estimated payments	-	(15)	-	(15)
Prepaid tax	\$ 236			\$ 236
Income tax payable		\$ 97	\$ 10	\$ 107

SEE INDEPENDENT AUDITORS' REPORT

CRYSTAL CAY CONDOMINIUM ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

NOTE 5 CASH AND SHORT-TERM INVESTMENTS

The Association's cash and short-term investment balances as of December 31, 2015, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Pacific Premier Bank	-	\$ 127,984	-
Pacific Premier Bank	0.35%	353,463	-
C1 Bank	0.20%	6	-
Customers Bank	0.20%	245,041	-
Traditional Bank	0.20%	245,042	-
U.S. Bank	0.20%	245,042	-
United Bank	0.20%	65,456	-
City National Bank	**	61,584	***
City National Bank	**	41,244	***
Total		\$ 1,384,862	

As of December 31, 2015, the Association's accounts at Pacific Premier Bank totaled \$ 481,447 exceeding the FDIC insurance limit of \$250,000 per depositor per institution.

NOTE 6 ASSESSMENTS RECEIVABLE

Association members are subject to annual assessments (paid in monthly installments) to fund the Association's operating expenses, future capital acquisitions and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments and other fees due from unit owners. Most owners live within Southern California and their ability to pay would be influenced by the local economy. The Association's CC & R's provide for various collection remedies for delinquent assessments including filing of liens on the owner's unit, foreclosing on the unit owner, and obtaining judgement on other assets of the unit owner.

NOTE 7 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Association uses the allowance method of recording bad debts. This method requires an annual provision for bad debts based on past or industry experience.

NOTE 8 ASSESSMENTS

During 2015, assessments were billed at a rate of \$ 297.00 per unit per month. Effective January 1, 2016, the rate increased to \$ 310.00 per unit per month.

NOTE 9 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is June 21, 2016, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

ROBERT A. OWENS, C.P.A.
A PROFESSIONAL ACCOUNTANCY CORPORATION

27792 EL LAZO
LAGUNA NIGUEL, CALIFORNIA 92677

TELEPHONE: (949) 851-5020 • FAX (949) 851-9048
E-MAIL: raoepa@aol.com Web Site: www.raoepa.com

MEMBER:
AMERICAN INSTITUTE
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Crystal Cay Condominium Association

Our report on our audit of the basic financial statements of Crystal Cay Condominium Association for the year ended December 31, 2015 appears on page 3. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. Accounting principles generally accepted in the United States of America require that the 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.



Robert A. Owens, CPA A PAC

June 21, 2016

CRYSTAL CAY CONDOMINIUM ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
DECEMBER 31, 2015
(UNAUDITED)

The board of directors contracted an independent consultant who conducted a October 17, 2015 study, projected to December 31, 2015, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 3% and an interest rate of **%.

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

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	2016 Funding Requirement	Recommended Fund Balances
Concrete/Asphalt	0 to 1 year	\$ 267,500	*	*
Lights	1 to 9 years	164,800	*	*
Awnings	10 years	56,800	*	*
Mailboxes	0 years	23,300	*	*
Patio Furniture	5 years	11,800	*	*
Fences	1 year	16,200	*	*
Gates/Doors	1 to 6 years	112,000	*	*
Bathrooms	1 year	20,000	*	*
Irrigation	1 to 6 years	36,800	*	*
Painting	0 to 1 year	304,800	*	*
Pool/Spa	0 to 3 years	64,500	*	*
Roof/Decks	0 to 26 years	2,452,000	*	*
Signage	1 year	3,500	*	*
Fountains	1 year	10,400	*	*
Sewer Pump	0 years	7,700	*	*
Tree Trimming	0 years	5,000	*	*
Plumbing	0 years	50,000	*	*
Termite Treatment	0 years	13,000	*	*
		<u>\$ 3,620,100</u>	<u>\$ 566,412</u>	<u>\$ 1,881,930</u>

As shown above, the study recommends a replacement fund balance of \$1,881,930 as of December 31, 2015 and contributions to reserves of \$566,412 during 2016. The Association's replacement fund balance at December 31, 2015 was \$1,256,878 or 66.79% of the recommended fund balance.