



April 16, 2018

Dear Beachwalk Homeowner;

Enclosed is a copy of the audit prepared by Owens Moskowitz and Associates, Inc, for the fiscal year ending December 31, 2017. It is a requirement of your CC&R's and the California Civil Code that the review be sent to each homeowner annually.

Please retain this document with the other permanent records for your home.

Sincerely,

Board of Directors
Beachwalk Carpinteria Homeowners Association

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2017

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OWENS, MOSKOWITZ AND ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Beachwalk/Carpinteria Owners Association

We have audited the accompanying financial statements of Beachwalk/Carpinteria Owners Association, which comprise the balance sheet as of December 31, 2017, 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 Beachwalk/Carpinteria Owners Association as of December 31, 2017, 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.

Owens, Moskowitz and Associates, Inc.

Owens, Moskowitz and Associates, Inc.

March 29, 2018

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 85,565	\$ 165,722	\$ 251,287
Short-Term Investments	-	160,000	160,000
Assessments Receivable	1,936	-	1,936
Less: Allowance For Doubtful Accounts	(1,623)	-	(1,623)
Interest Receivable	-	33	33
Prepaid Taxes	405	-	405
Prepaid Insurance	19,808	-	19,808
Due From/(Due To) Other Funds	(18,909)	18,909	-
Total Assets	<u>\$ 87,182</u>	<u>\$ 344,664</u>	<u>\$ 431,846</u>
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	\$ 2,121	\$ -	\$ 2,121
Prepaid Assessments	6,816	-	6,816
Income Taxes Payable	10	-	10
Total Liabilities	8,947	-	8,947
Commitments	-	-	-
Association Funds	<u>78,235</u>	<u>344,664</u>	<u>422,899</u>
Total Liabilities And Association Funds	<u>\$ 87,182</u>	<u>\$ 344,664</u>	<u>\$ 431,846</u>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	\$ 194,124	\$ 112,596	\$ 306,720
Interest Income	-	812	812
Other Income	462	-	462
Total Revenue	194,586	113,408	307,994
EXPENSES			
Landscape Maintenance	30,170	962	31,132
Management Fees	8,730	-	8,730
Administrative	4,271	-	4,271
Legal And Audit	1,550	-	1,550
Insurance	72,738	-	72,738
Bad Debt	423	-	423
Pool	5,071	-	5,071
Rubbish Collection	18,817	-	18,817
Pest Control	1,744	-	1,744
General Maintenance	3,471	-	3,471
Reserve Study	1,350	-	1,350
Gas	665	-	665
Electricity	4,525	-	4,525
Water	11,345	-	11,345
Unit Repairs	15,191	-	15,191
Asphalt Slurry	-	2,450	2,450
Gutters	3,153	-	3,153
Utility Doors	-	395	395
Concrete	-	6,648	6,648
Plumbing	2,691	-	2,691
Roof and Decks	-	56,040	56,040
Income Tax	38	-	38
Total Expenses	185,943	66,495	252,438
Excess of Revenue Over Expenses	8,643	46,913	55,556
Association Funds Balance Beginning of Year	69,592	297,751	367,343
Association Funds Balance End of Year	\$ 78,235	\$ 344,664	\$ 422,899

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows From Operating Activities:			
Cash Received From Members	\$ 196,741	\$ 112,596	\$ 309,337
Cash Paid To Suppliers of Goods And Services	(190,044)	(66,495)	(256,539)
Interest Received	-	779	779
Income Taxes Paid	(10)	-	(10)
Net Cash Provided By Operating Activities	6,687	46,880	53,567
Cash And Cash Equivalents At Beginning of Year	78,878	118,842	197,720
Cash And Cash Equivalents At End of Year	\$ 85,565	\$ 165,722	\$ 251,287

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

Excess of Revenue Over Expenses	\$ 8,643	\$ 46,913	\$ 55,556
Adjustments To Reconcile Excess of Revenue Over Expenses To Net Cash Provided By Operating Activities:			
Change In Assessments Receivable	1,382	-	1,382
Change In Interest Receivable	-	(33)	(33)
Change In Prepaid Insurance	(1,605)	-	(1,605)
Change In Prepaid Taxes	28	-	28
Change In Accounts Payable	(2,957)	-	(2,957)
Change In Prepaid Assessments	1,196	-	1,196
Net Cash Provided By Operating Activities	\$ 6,687	\$ 46,880	\$ 53,567

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 NATURE OF ORGANIZATION

Beachwalk/Carpinteria Owners Association was incorporated on January 4, 1984, 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 Carpinteria, California. The development consists of 60 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Beachwalk/Carpinteria Owners 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

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(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, 2017, indicates the Association's ideal cash replacement fund balance was \$ 747,543 at that date. The study recommends a 2018 contribution to the replacement fund of \$ 141,216 (\$ 196.13 per owner per month), which the 2018 budget is following.

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 2017, the Association filed as an exempt association.

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 2014 through 2017 for federal purposes and 2013 through 2017 for state purposes. Income taxes for the current year were:

2017 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ -	\$ 28	\$ 10	\$ 38
Less: Credit from prior year return	-	(433)	-	(433)
Prepaid tax	\$ -	\$ 405		\$ 405
Income tax payable			\$ 10	\$ 10

SEE INDEPENDENT AUDITORS' REPORT

BEACHWALK/CARPINTERIA OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(CONTINUED)

NOTE 5 CASH AND SHORT-TERM INVESTMENTS

The Association's cash and short-term investment balances as of December 31, 2017, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Union Bank	-	\$ 85,565	-
Union Bank	0.02%	165,722	-
First National Bank	0.75%	160,000	January 22, 2018
Total		\$ 411,287	

As of December 31, 2017, the Association's accounts at Union Bank totaled \$ 251,287 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 2017, assessments were billed at a rate of \$ 426.00 per unit per month. Effective January 1, 2018, the rate increased to \$ 465.75 per unit per month.

NOTE 9 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 29, 2018, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Beachwalk/Carpinteria Owners Association

Our report on our audit of the basic financial statements of Beachwalk/Carpinteria Owners Association for the year ended December 31, 2017 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.

Owens, Moskowitz and Associates, Inc.

Owens, Moskowitz and Associates, Inc.

March 29, 2018