



April 16, 2018

Dear San Simeon Community 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 this report be sent to each homeowner annually.

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

Sincerely,

Board of Directors  
San Simeon Community Association

**SAN SIMEON COMMUNITY ASSOCIATION**

Audited Financial Statements

For The Year Ended December 31, 2017

## TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT .....	3-4
BALANCE SHEET .....	5
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS .....	6
STATEMENT OF CASH FLOWS .....	7
NOTES TO FINANCIAL STATEMENTS .....	8-11
SUPPLEMENTAL INFORMATION .....	12
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION .....	13
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS .....	14

**OWENS, MOSKOWITZ AND ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
San Simeon Community Association

We have audited the accompanying financial statements of San Simeon Community 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 San Simeon Community 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.

**Emphasis-of- Matter Regarding Supplemental Information**

Per California Civil Code requirements, the Association has conducted a study to estimate the remaining lives and replacement costs of the common property within the past three years. The schedule that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements has used the most current study dated November 5, 2016. The projections of this study have not been updated and may no longer be valid.

Owens, Moskowitz and Associates, Inc.

*Owens, Moskowitz and Associates, Inc.*

March 29, 2018

SAN SIMEON COMMUNITY ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>ASSETS</b>			
Cash	\$ 123,703	\$ 134,311	\$ 258,014
Investments	325,000	230,000	555,000
Assessments Receivable	31,777	-	31,777
Less: Allowance For Doubtful Accounts	(29,424)	-	(29,424)
Prepaid Insurance	<u>1,932</u>	<u>-</u>	<u>1,932</u>
<b>Total Assets</b>	<b><u>\$ 452,988</u></b>	<b><u>\$ 364,311</u></b>	<b><u>\$ 817,299</u></b>
<b>LIABILITIES AND ASSOCIATION FUNDS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 5,929	\$ -	\$ 5,929
Prepaid Assessments	11,992	-	11,992
Income Taxes Payable	<u>786</u>	<u>-</u>	<u>786</u>
<b>Total Liabilities</b>	<b>18,707</b>	<b>-</b>	<b>18,707</b>
Commitments	-	-	-
<b>Association Funds</b>	<b><u>434,281</u></b>	<b><u>364,311</u></b>	<b><u>798,592</u></b>
<b>Total Liabilities And Association Funds</b>	<b><u>\$ 452,988</u></b>	<b><u>\$ 364,311</u></b>	<b><u>\$ 817,299</u></b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

SAN SIMEON COMMUNITY ASSOCIATION  
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUE</b>			
Assessments	\$ 230,928	\$ 25,584	\$ 256,512
Interest Income	3,155	2,310	5,465
Other Income	3,910	-	3,910
<b>Total Revenue</b>	<b>237,993</b>	<b>27,894</b>	<b>265,887</b>
<b>EXPENSES</b>			
Landscape Maintenance	97,183	19,017	116,200
Management Fees	32,064	-	32,064
Administrative	8,721	-	8,721
Legal And Audit	5,211	-	5,211
Insurance	6,089	-	6,089
Bad Debt	3,918	-	3,918
General Maintenance	150	-	150
Electricity	1,181	-	1,181
Water	40,542	-	40,542
Income Tax	1,332	-	1,332
<b>Total Expenses</b>	<b>196,391</b>	<b>19,017</b>	<b>215,408</b>
<b>Excess of Revenue Over Expenses</b>	<b>41,602</b>	<b>8,877</b>	<b>50,479</b>
<b>Association Funds Balance Beginning of Year</b>	<b>392,679</b>	<b>355,434</b>	<b>748,113</b>
<b>Association Funds Balance End of Year</b>	<b>\$ 434,281</b>	<b>\$ 364,311</b>	<b>\$ 798,592</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

SAN SIMEON COMMUNITY ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>Cash Flows From Operating Activities:</b>			
Cash Received From Members	\$ 232,897	\$ 25,584	\$ 258,481
Cash Paid To Suppliers of Goods And Services	(188,766)	(19,017)	(207,783)
Interest Received	3,155	2,310	5,465
Income Taxes Paid	(897)	-	(897)
<b>Net Cash Provided By Operating Activities</b>	<b>46,389</b>	<b>8,877</b>	<b>55,266</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>77,314</b>	<b>125,434</b>	<b>202,748</b>
<b>Cash And Cash Equivalents At End of Year</b>	<b>\$ 123,703</b>	<b>\$ 134,311</b>	<b>\$ 258,014</b>

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

<b>Excess of Revenue Over Expenses</b>	<b>\$ 41,602</b>	<b>\$ 8,877</b>	<b>\$ 50,479</b>
<b>Adjustments To Reconcile Excess of Revenue Over Expenses To Net Cash Provided By Operating Activities:</b>			
Change In Assessments Receivable	1,571	-	1,571
Change In Prepaid Insurance	(28)	-	(28)
Change In Accounts Payable	2,403	-	2,403
Change In Prepaid Assessments	406	-	406
Change In Income Tax Payable	435	-	435
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 46,389</b>	<b>\$ 8,877</b>	<b>\$ 55,266</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES



SAN SIMEON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 NATURE OF ORGANIZATION

San Simeon Community Association was incorporated on September 5, 2000, 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 Camarillo, California. The development consists of 334 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of San Simeon Community Association are maintained on the accrual basis of accounting with entries made to adjust them 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 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 investments. Cash equivalents and 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

SAN SIMEON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association is funding contributions to capital for the future replacement of selected Association common areas. The funds are held in separate savings accounts to be used for the replacement of common areas only and not in the course of normal operations.

California Civil Code Section 5550 requires that associations identify the estimated remaining life of assets the association is obligated to maintain and the methods of funding used to defray future repair and replacement costs.

Industry practice is to engage outside consultants with experience in construction and maintenance to study and report on the estimated remaining life of assets that the Association is obligated to maintain and the costs of their repair and replacement. These reports address the adequacy of reserves and their funding.

A study of the Association's funding program for the replacement of Association common areas, conducted as of December 31, 2016, indicated the Association's ideal cash replacement fund balance was \$ 252,220 at that date. The study indicated the replacement fund was approximately 141% ideally funded.

An independent study to determine the adequacy of the funding program for the replacement of Association common areas has not been conducted for the current year. 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. Accordingly, the current program and cash savings may not be sufficient to meet all future replacement costs. Therefore, when replacement funds are needed, 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.

SEE INDEPENDENT AUDITORS' REPORT

SAN SIMEON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(CONTINUED)

**NOTE 4 INCOME TAXES (Continued)**

Income taxes for the current year were:

2017 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 883	\$ 439	\$ 10	\$ 1,332
Less: Estimated payments	(256)	(290)	-	(546)
<b>Income tax payable</b>	<b>\$ 627</b>	<b>\$ 149</b>	<b>\$ 10</b>	<b>\$ 786</b>

**NOTE 5 CASH AND INVESTMENTS**

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

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Union Bank	-	\$ 123,703	-
Union Bank	0.02%	134,311	-
First Internet Bank of India	1.20%	50,000	September 11, 2018
First Internet Bank of India	1.30%	50,000	November 1, 2018
Merrick Bank	1.25%	100,000	July 11, 2018
Tristate Capital Bank	1.00%	75,000	February 16, 2018
Tristate Capital Bank	1.05%	50,000	May 2, 2018
Cornerstone Bank	1.40%	50,000	March 8, 2019
First Internet Bank of India	1.10%	40,000	June 4, 2018
Merrick Bank	1.20%	90,000	August 15, 2018
Tristate Capital Bank	1.00%	50,000	February 16, 2018
<b>Total</b>		<b>\$ 813,014</b>	

During the course of the year, the Association's demand deposit accounts at Union Bank may fluctuate over the FDIC insurance coverage 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.

SEE INDEPENDENT AUDITORS' REPORT

SAN SIMEON COMMUNITY ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(CONTINUED)

NOTE 8 ASSESSMENTS

During 2017, assessments were billed at a rate of \$ 64.00 per unit per month. The rate is budgeted to remain at \$ 64.00 per unit per month for 2018.

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

**OWENS, MOSKOWITZ AND ASSOCIATES, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER:  
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ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
San Simeon Community Association

Our report on our audit of the basic financial statements of San Simeon Community 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 14 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

SAN SIMEON COMMUNITY ASSOCIATION  
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS  
AND REPLACEMENTS  
DECEMBER 31, 2017  
(UNAUDITED)

**Please Note: A current year study has not been conducted.**

The board of directors contracted an independent consultant who conducted a November 5, 2016 study, projected to December 31, 2016, 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 0.5%.

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	2017 Funding Requirement	Recommended Fund Balances
Wrought Iron Fence Replacement	5 years	\$ 206,250	\$ 10,181	\$ 154,688
Wrought Iron Fence Painting	0 years	41,250	8,145	41,250
Landscaping	1 year	30,000	2,962	27,000
Path Access	2 to 6 years	26,601	1,814	18,113
Concrete Sidewalks	5 years	2,138	211	1,069
Park Furniture	3 years	8,000	790	5,600
Irrigation	0 to 1 year	5,000	1,481	4,500
		<u>\$ 319,239</u>	<u>\$ 25,584</u>	<u>\$ 252,220</u>

As shown above, the study recommends a replacement fund balance of \$252,220 as of December 31, 2016 and contributions to reserves of \$25,584 during 2017. The Association's replacement fund balance at December 31, 2016 was \$355,434 or 140.92% of the recommended fund balance.