SPECTRUM
Property Services

April 30, 2019

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, 2018. 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

1259 Callens Road, Suite A, Ventura, CA 93003
P.O. Box 5286, Ventura, CA 93005
(805) 642-6160 / (800) 642-8333
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SAN SIMEON COMMUNITY ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2018

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

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, 2018, 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, 2018, 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.

April 25, 2019

SAN SIMEON COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	$ 124,084	$ 119,064	$ 243,148
Short-Term Investments	375,000	280,000	655,000
Accounts Receivable	106,750	-	106,750
Less: Allowance For Doubtful Accounts	(104,493)	-	(104,493)
Prepaid Insurance	1,763	-	1,763
Total Assets	**$ 503,104**	**$ 399,064**	**$ 902,168**
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	$ 7,865	$ -	$ 7,865
Prepaid Assessments	13,106	-	13,106
Income Taxes Payable	1,609	-	1,609
Total Liabilities	**22,580**	**-**	**22,580**
Commitments	-	-	-
Association Funds	**480,524**	**399,064**	**879,588**
Total Liabilities And Association Funds	**$ 503,104**	**$ 399,064**	**$ 902,168**

SAN SIMEON COMMUNITY ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	$ 230,864	$ 25,648	$ 256,512
Interest Income	5,920	4,065	9,985
CC&R Violation Charges	80,650	-	80,650
Water Rebates	-	5,040	5,040
Other Income	2,383	-	2,383
Total Revenue	**319,817**	**34,753**	**354,570**
EXPENSES			
Landscape Maintenance	87,192	-	87,192
Management Fees	32,064	-	32,064
Administrative	8,818	-	8,818
Legal And Audit	5,476	-	5,476
Insurance	5,669	-	5,669
Bad Debt	75,078	-	75,078
Electricity	1,218	-	1,218
Water	55,126	-	55,126
Income Tax	2,933	-	2,933
Total Expenses	**273,574**	**-**	**273,574**
Excess of Revenue Over Expenses	**46,243**	**34,753**	**80,996**
Association Funds Balance Beginning of Year	**434,281**	**364,311**	**798,592**
Association Funds Balance End of Year	**$ 480,524**	**$ 399,064**	**$ 879,588**

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

SAN SIMEON COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows From Operating Activities:			
Cash Received From Members	$ 240,029	$ 30,688	$ 270,717
Cash Paid To Suppliers of Goods And Services	(193,458)	-	(193,458)
Interest Received	5,920	4,065	9,985
Income Taxes Paid	(2,110)	-	(2,110)
Net Cash Provided By Operating Activities	**50,381**	**34,753**	**85,134**
Cash Flows From Investing Activities:			
Purchase of Short-Term Investments	(50,000)	(50,000)	(100,000)
Net Increase (Decrease) In Cash And Cash Equivalents	**381**	**(15,247)**	**(14,866)**
Cash And Cash Equivalents At Beginning of Year	**123,703**	**134,311**	**258,014**
Cash And Cash Equivalents At End of Year	**$ 124,084**	**$ 119,064**	**$ 243,148**

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

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Excess of Revenue Over Expenses	**$ 46,243**	**$ 34,753**	**$ 80,996**
Adjustments To Reconcile Excess of Revenue Over Expenses To Net Cash Provided By Operating Activities:			
Change In Accounts Receivable	96	-	96
Change In Prepaid Insurance	169	-	169
Change In Accounts Payable	1,936	-	1,936
Change In Prepaid Assessments	1,114	-	1,114
Change In Income Tax Payable	823	-	823
Net Cash Provided By Operating Activities	**$ 50,381**	**$ 34,753**	**$ 85,134**

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 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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606).* This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. We adopted the standard on January 1, 2018. Our revenue is generated substantially all from assessments from member homeowners charged monthly, for services rendered monthly.

We have analyzed the provisions of the FASB's ASC Topic 606, *Revenue from Contracts with Customers,* and have concluded that no changes are necessary to conform to the new standard. Our revenue contains a single delivery element and revenue is recognized at a single point in time when ownership, risks and rewards transfer.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* This guidance represents a significant change in the accounting model for credit losses by requiring immediate recognition of management's estimates of "current expected credit losses". Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The new model is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. Although this change affects any entity holding financial instruments (ie: trade receivables or investments in debt securities) the financial services industry by its nature bears the most exposure. The effect of adoption of this standard will be to accelerate the recognition of credit losses. The effective date of this standard is for years beginning after December 15, 2021, with early adoption allowed. We do not plan an early adoption of this standard.

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.

NOTE 3 REPLACEMENT FUND (Continued)

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 2018, 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.

The Association recognizes tax benefits only to the extent that it believes it is more likely than not that its tax positions will be sustained upon examination by taxing authorities. The Association believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded. The Association's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed, and by the California Franchise Tax Board for four years after they are filed.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were:

2018 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	$ 2,093	$ 830	$ 10	$ 2,933
Less: Estimated payments	(884)	(440)	-	(1,324)
Income tax payable	**$ 1,209**	**$ 390**	**$ 10**	**$ 1,609**

NOTE 5 ASSESSMENTS

During 2018, 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 2019.

NOTE 6 CASH AND SHORT-TERM INVESTMENTS

The Association's cash and short-term investment balances as of December 31, 2018, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Union Bank	-	$ 124,084	-
Union Bank	0.02%	119,064	-
Financial Federal Bank	2.20%	50,000	May 2, 2019
First Internet Bank of Indiana	1.75%	75,000	August 19, 2019
First Internet Bank of Indiana	2.15%	50,000	June 10, 2019
Preferred Bank	2.10%	100,000	January 25, 2019
Tristate Capital Bank	2.20%	100,000	November 4, 2019
Total		$ 618,148	

NOTE 7 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.

Generally accepted accounting principles require uncollectible receivables to be accounted for using the allowance method, which requires an annual provision for doubtful accounts. As such, the allowance for doubtful accounts represents an estimate of the amount of accounts receivable that may eventually be uncollectible. The allowance was computed by adding all receivables with balances older than 180 days.

Receivable balances are written off once all collection alternatives have been exhausted and the Board of Directors has deemed them uncollectible.

NOTE 8 DETENTION BASIN MATTER

In developing its Pitts Rancho property in the City of Camarillo, the developer built a pair of water runoff detention basins to control water runoff into Calleguas Creek from five subdivisions. The Association filed a lawsuit alleging that the basins were defective in design and construction, and further alleged that the developer that the developer improperly attempted to impose the full cost of detention basin maintenance onto the Association rather than sharing the costs among all five subdivisions. The developer denied the allegations, contending that the basins worked properly and that the basins were duly transferred as part of the Association's common area.

In November 2009, a settlement agreement was reached. Under the agreement, the developer promised to perform any remedial or repair work necessary to make the basins function properly in a manner acceptable to the City of Camarillo, and promised in the interim to maintain the basins as required by the City.

NOTE 8 DETENTION BASIN MATTER (Continued)

The City of Camarillo has agreed that once the repairs are complete and the basins are in a serviceable condition, the City will schedule a study session to discuss accepting ownership of the detention basins and establishing a proposed special assessment district to provide for basin maintenance going forward. The establishment of a special assessment district would require a favorable vote of the homeowners of all five Pitts Ranch subdivisions.

Pursuant to the agreement, the court entered an Order Imposing Stay of Action. In August 2018, the Association requested that the stay remain in effect as the developer has performed work on the basins, but the City has yet to approve such work. On the case management statement, the City reaffirmed its willingness to assist in completing the settlement and the developer reaffirmed its commitment to perform necessary work to meet the City's requirements.

NOTE 9 WATER REBATES

During 2017, the Association completed a project to install smart irrigation controllers that qualified for the Metropolitan Water District of Southern California's Water Smart Rebate Program. Upon completion of the project, the Association satisfied the Program's goals to increase water use efficiency. In February 2018, the Water District issued a rebate check to the Association totaling $5,040.

NOTE 10 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2018, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 25, 2019, which is the date on which the financial statements were issued.

SUPPLEMENTAL INFORMATION

OWENS, MOSKOWITZ AND ASSOCIATES, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018 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 15 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.

April 25, 2019

SAN SIMEON COMMUNITY ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018
(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
		$ 319,239	$ 25,584	$ 252,220

As shown above, the study recommended 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.