

COMMON INTEREST

MANAGEMENT SERVICES

Serving Homeowners Associations Since 1990

To: All Harbor Lights I Homeowners
From: Patricia Grcevich, Community Manager, Common Interest Management Services
Date: February 5, 2015
RE: Year-End Review as of November 30, 2014

Enclosed is a copy of the November 30, 2014 Year-End Financial Review prepared by CPA, Wayne Sanderson.

A copy is provided for your review per Civil Code §5305 which reads "A review of the financial statement of the association shall be prepared in accordance with the generally accepted accounting principles by a licensee of the California Board of Accountancy for any fiscal year in which the gross income to the association exceeds seventy-five thousand dollars (\$75,000.00)."

This review includes important information and disclosures about the financial standing of the community at the close of your last fiscal year dated November 30, 2014. Please review the enclosed documents at your earliest convenience.

Please keep this document with your Association files. If you decide to sell your home, you will be asked to provide this document to prospective buyers.

If you have any questions on the Annual Financial Review, please contact Community Manager Patricia Grcevich at Common Interest Management at 925-743-3080 x 221 or at pgrcevich@commoninterest.com.

Best Regards,
Patricia Grcevich

* Per Civil Code 5305 (d) which reads "A review of the financial statement of the Association shall be prepared in accordance with the generally accepted accounting principles by a licensee of the California Board of Accountancy for any fiscal year in which the gross income to the association exceeds seventy-five thousand (\$75,000). A copy of the review of the financial statement shall be distributed within 120 days to all homeowners after the close of each fiscal year."

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HARBOR LIGHTS HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

November 30, 2014

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION TABLE OF CONTENTS

November 30, 2014

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WAYNE SANDERSON CPA

Accountancy Inc.

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To: The Board of Directors
Harbor Lights Homeowners Association

I have reviewed the balance sheets of Harbor Lights Homeowners Association as of November 30, 2014 and the related statements of revenues, expenses, and changes in fund balances, 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 as a whole. Accordingly, I 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.

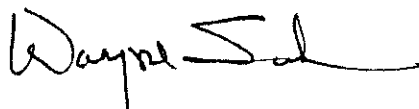
My responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require me to perform procedures to obtain limited assurance that there are no material modification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

Based on my review, I am 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.

My review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statement 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 Expenses—Budget and Actual on page 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Accordingly, I do not express an opinion or provide any assurance on this schedule.

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacement of common property on page 7 be presented to supplement the basic financial statements. The required supplemental information has been compiled from information that is the representation of management. I have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

Knightsen California
January 22, 2015



HARBOR LIGHTS HOMEOWNERS ASSOCIATION

BALANCE SHEETS

November 30, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS:			
Cash -			
Unrestricted Bank Account	\$ 6,792	\$	\$ 6,792
Restricted for future repairs and replacements --			
Bank Accounts		380,780	380,780
Long term Certificates of Deposit		134,058	134,058
Total cash	<u>6,792</u>	<u>514,838</u>	<u>521,630</u>
Assessments receivable	5,986		5,986
Prepaid insurance	450		450
Other prepaid expense	3,792		3,792
Inter fund accounts	<u>(4,616)</u>	<u>4,616</u>	
TOTAL ASSETS	<u>\$ 12,404</u>	<u>\$ 519,454</u>	<u>\$ 531,858</u>
 LIABILITIES:			
Assessments paid in advance	\$ 7,887	\$	\$ 7,887
Accounts payable	25,815		25,815
Taxes payable	<u>30</u>		<u>30</u>
TOTAL LIABILITIES	<u>33,732</u>	<u>0</u>	<u>33,732</u>
 MEMBER EQUITY:			
Replacement fund, restricted		519,454	519,454
Operating fund	<u>(21,328)</u>		<u>-21,328</u>
TOTAL FUND BALANCE	<u>(21,328)</u>	<u>519,454</u>	<u>498,126</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 12,404</u>	 <u>\$ 519,454</u>	 <u>\$ 531,858</u>

See accompanying footnotes and accountants' report

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES AND EXPENSES, AND CHANGES IN FUND BALANCES

For the year ended November 30, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE:			
Regular assessments	\$ 324,860	\$ 85,000	\$ 409,860
Interest earned		356	356
Other	<u>8,783</u>		<u>8,783</u>
 TOTAL REVENUES	 <u>333,643</u>	 <u>85,356</u>	 <u>418,999</u>
EXPENSES:			
Facility maintenance	119,700		119,700
Utility costs	134,354		134,354
Insurance costs	8,101		8,101
Administrative costs	130,181		130,181
Guard house repair		27,124	27,124
Landscape replacement		31,258	31,258
Replace gate transponders		6,723	6,723
Tree maintenance		5,670	5,670
Other replacement expenditures		<u>2,549</u>	<u>2,549</u>
 TOTAL EXPENSES	 <u>392,336</u>	 <u>73,324</u>	 <u>465,660</u>
 Excess (Deficiency) of Revenues Over Expenses	 (58,693)	 12,032	 (46,661)
 Beginning Fund Balance	 <u>37,365</u>	 <u>507,422</u>	 <u>544,787</u>
 Ending Fund Balance	 <u><u>\$ (21,328)</u></u>	 <u><u>\$ 519,454</u></u>	 <u><u>\$ 498,126</u></u>

See accompanying footnotes and accountant's report

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS

For the year ending November 30, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues (deficiency)	\$ (58,693)	\$ 12,032	\$ (46,661)
Adjustments to reconcile excess (deficiency) of revenues over expense to net cash provided (used) by operations:			
Increase (decrease) in allowance for doubtful assessments	63,294		63,294
(Increase) decrease in:			
Member assessments receivable	(181)		(181)
Prepaid insurance	4,318		4,318
Other prepaid expense	(146)		(146)
Increase (decrease) in:			
Accounts payable	(3,182)		(3,182)
Prepaid assessments	6,316		6,316
Taxes payable	30		30
	<u>11,756</u>	<u>12,032</u>	<u>23,788</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	11,756	12,032	23,788
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in inter-fund accounts	<u>(9,551)</u>	<u>9,551</u>	<u> </u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(9,551)	9,551	
CASH AT BEGINNING OF YEAR	<u>4,587</u>	<u>493,255</u>	<u>497,842</u>
CASH AT END OF YEAR	<u>\$ 6,792</u>	<u>\$ 514,838</u>	<u>\$ 521,630</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	<u>\$ None</u>	<u>\$ -</u>	<u>\$ None</u>

See accompanying footnotes and accountant's report

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

FOOTNOTES TO FINANCIAL STATEMENTS

November 30, 2014

NOTE A – NATURE OF ORGANIZATION

Harbor Lights Homeowners Association was incorporated on December 20, 2000 as a not-for-profit corporation in the state of California for the purpose of operating and maintaining the common property of Harbor Lights Homes. Harbor Lights Homeowners Association consists of 253 residential units located in Contra Costa County, California.

NOTE B – DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through January 22, 2015, the date that the financial statements were available to be issued.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association uses fund accounting which requires that funds, such as operating funds and funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors. Disbursements from the restricted replacement fund generally may be made only for designated purposes.

Assessments Receivable – Members

Association members are subject to assessments to provide funds for the Association's operating expenses and future major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to place liens on units of members whose assessments are 75 days or more delinquent. The Association provided a provision for doubtful accounts of \$92,000 against unpaid assessments on units believed to have debt in excess of equity.

Property and Equipment

Real property and common area acquired from the developer and related improvements are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Estimates

The preparation of financial statement in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

FOOTNOTES TO FINANCIAL STATEMENTS

November 30, 2014

NOTE D – INCOME TAXES

The Association is classified as a non-exempt membership organization for both federal and state income tax purposes for the years ended November 30, 2014 and 2013. Under this filing method the Association is taxed on all income from non-membership activities net of non-membership direct costs. The taxing agencies have up to four years to audit the returns.

In evaluating the Associations tax provision and accruals, the Board of Directors believes that the estimates are appropriate based on current facts and circumstances.

NOTE E – INSURED CASH BALANCES

The association maintains its cash balance at several financial institutions. Accounts at each institution are secured by Federal Deposit Insurance Corporation. Uninsured balances are approximately \$137,571 at November 30, 2014.

NOTE F – REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate \$514,838 at November 30, 2014 are held in separate accounts and are generally not available for operating purposes.

The Association conducted a study to estimate the remaining lives and replacement costs of the common property components. The Association is funding for repairs and replacements based on this study. Actual expenditures, however, may vary from the estimated amounts and variations may be material. If funds designated are inadequate to meet the need, the Association has the right, subject to member approval, to increase regular assessments, or levy special assessments, or delay major repairs and replacements until funds are available.

Member equity designated for future major repairs and replacements has not be allocated by the Board of Directors to the components of common property and can be used to make repairs and replacement to any component as needed.

NOTE G – COMMITMENTS

The Association contracts for management and certain maintenance services on an annual basis. The contracts are generally cancelable on 30 to 90 days notice.

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

SUPPLEMENTAL INFORMATION SCHEDULE A - BUDGET COMPARISON FOR OPERATING FUND

For the year ended November 30, 2014

	<u>Actual</u>	<u>Budget</u> (Complied)	<u>(Over) Under</u> <u>Budget</u>
FACILITY MAINTENANCE AND REPAIR:			
Landscape contract	\$ 92,462	\$ 92,220	\$ (242)
Irrigation repair	9,802	6,000	(3,802)
Weed abatement	6,244	4,000	(2,244)
Other landscape costs	4,518	(2,800)	(7,318)
General repair	<u>6,674</u>	<u>30,350</u>	<u>23,676</u>
Total	<u>119,700</u>	<u>129,770</u>	<u>10,070</u>
REPLACEMENT PROVISION			
	<u>85,000</u>	<u>85,000</u>	
FACILITY UTILITIES:			
Gas & electric service	3,682	3,300	(382)
Water & sewer service	64,194	35,000	(29,194)
Security service	64,403	74,774	10,371
Telephone service	<u>2,075</u>	<u>2,500</u>	<u>425</u>
Total	<u>134,354</u>	<u>115,574</u>	<u>(18,780)</u>
INSURANCE COSTS			
	<u>8,101</u>	<u>10,216</u>	<u>2,115</u>
ADMINISTRATION OF ASSOCIATION:			
Management and accounting	43,752	43,750	(2)
Professional services	3,390	4,300	910
Office costs	15,833	15,000	(833)
Provision for doubtful accounts	67,131	6,000	(61,131)
Other	<u>75</u>	<u>250</u>	<u>175</u>
Total	<u>130,181</u>	<u>69,300</u>	<u>(60,881)</u>
Total Budget	<u>\$ 477,336</u>	<u>\$ 409,860</u>	<u>\$ (67,476)</u>

See Accountant's Review Report

HARBOR LIGHTS HOMEOWNERS ASSOCIATION

SUPPLEMENTAL INFORMATION

SCHEDULE B - FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)

An independent engineer conducted a study in October 2014 to estimate the remaining useful lives and the current replacement requirement of components of common property. Replacement requirements were based on the formula specified in California Civil Code 1365.2.5. This uniform method of disclosure allows buyers in California common interest developments to have a uniform measure to compare the relative adequacy of replacement funding between projects.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest thousand dollars.)

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>
Access	4 to 19	\$ 98,000
Exterior painting	1 to 10	31,000
Asphalt and concrete	3 to 18	846,000
Fences, walls and gates	2 to 16	346,000
Landscape & exterior lighting	0 to 18	349,000
Other assets	1 to 4	<u>59,000</u>
 TOTAL		 \$ <u>1,729,000</u>
Budgeted replacement funding for next year		\$ <u>85,000</u>
The engineering study disclosed the following at the date of the study:		
Percent funded using formula in California Statute 1365.2.5		<u>66.44%</u>
Required per unit to reach 100% funding under California Statute 1365.2.5		\$ <u>1,034</u>

See Accountants Review Report