



La Costa Hills

March 29, 2018

Dear Homeowners:

Enclosed is a copy of the current *Fiscal Year-End Financial Review* for the La Costa Hills Homeowners Association. This report covers the period for the fiscal year ending December 31, 2017. A review is performed by a Certified Public Accountant at the end of each fiscal year.

Please review the report and, if you have any questions, address them in writing to the Board of Directors or to the Management Company at the address listed below.

Sincerely,

LA COSTA HILLS HOMEOWNERS ASSOCIATION

**LA COSTA HILLS HOMEOWNERS ASSOCIATION
REVIEWED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017**

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BECK and COMPANY, CPAs

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
LA COSTA HILLS HOMEOWNERS ASSOCIATION

We have reviewed the accompanying financial statements of LA COSTA HILLS HOMEOWNERS ASSOCIATION, which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. 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, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Summarized Comparative Information

The prior year summarized comparative information has been derived from the December 31, 2016 financial statements, which were reviewed by us. Our report dated February 3, 2017 stated that we were unaware of any material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

Accountant's Conclusion on the Financial Statements

Based on our review, we are 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on the last page 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, which 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 not audited, reviewed or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

BECK and COMPANY, CPAs

Carlsbad, California

February 22, 2018

**LA COSTA HILLS HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2017
(With Comparative Totals for 12/31/2016)**

	2017			2016
	Operating Fund	Replacement Fund	Total Funds	Total Funds
ASSETS:				
Cash including interest bearing deposits	\$ 37,218	\$ 182,104	\$ 219,322	\$ 120,339
Investments		80,000	80,000	-
Assessments Receivable	8,447		8,447	10,118
Due to Other Fund	(20,500)	20,500	-	
Prepaid Income Taxes	950		950	950
TOTAL ASSETS	\$ 26,115	\$ 282,604	\$ 308,719	\$ 131,407
LIABILITIES:				
Accounts Payable	\$ 21,010	\$ -	\$ 21,010	\$ 16,878
Prepaid Assessments	2,563		2,563	8,250
TOTAL LIABILITIES	23,573	-	23,573	25,128
FUND BALANCES	2,542	282,604	285,146	106,279
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,115	\$ 282,604	\$ 308,719	\$ 131,407

LA COSTA HILLS HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for 12/31/2016)

	2017			2016
	Operating Fund	Replacement Fund	Total Funds	Total Funds
REVENUES:				
Member Assessments	\$ 408,755	\$ 246,000	\$ 654,755	\$ 631,488
Special Assessments	17,736	15,000	32,736	-
Interest Income		52	52	16
A T & T income	1,425		1,425	1,000
Other Income	1,816		1,816	3,668
TOTAL REVENUES	429,732	261,052	690,784	636,172
EXPENSES:				
Maintenance				
Landscaping	58,847		58,847	55,660
Tree Trimming	5,800		5,800	7,600
Common Area R & M	86,752		86,752	46,836
Pool Maintenance	6,839		6,839	6,060
Pest Control	7,320		7,320	9,040
Janitorial	10,180		10,180	11,045
Gate	4,028		4,028	1,022
Fire Prevention	876		876	1,137
Utilities				
Cable & Internet	1,102		1,102	3,824
Electricity & Gas	83,023		83,023	79,369
Water & Sewer	33,721		33,721	34,408
Rubbish Removal	40,303		40,303	36,378
Telephone	715		715	445
Administrative				
Review/Tax Prep/Rsv Study	3,074		3,074	3,050
Bad Debt	150		150	1,604
Insurance	46,318		46,318	43,266
Legal & Consulting	1,304		1,304	1,568
Management Fee	31,657		31,657	46,464
Office & Administrative	5,226		5,226	1,938
Taxes, Licenses & Permits	619		619	355
Major Repairs and Replacements		84,063	84,063	263,980
TOTAL EXPENSES	427,854	84,063	511,917	655,049
Excess of Revenues over Expenses or (Expenses over Revenue)	1,878	176,989	178,867	(18,877)
Beginning Fund Balances	(5,799)	112,078	106,279	125,156
Net Interfund Transfers	6,463	(6,463)	(0)	-
ENDING FUND BALANCES	<u>\$ 2,542</u>	<u>\$ 282,604</u>	<u>\$ 285,146</u>	<u>\$ 106,279</u>

LA COSTA HILLS HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for 12/31/2016)

	2017			2016
	Operating Fund	Replacement Fund	Total Funds	Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 1,878	\$ 176,989	\$ 178,867	\$ (18,877)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments Receivable	1,671		1,671	(181)
Increase (decrease) in:				
Accounts Payable	4,132	-	4,132	(50,247)
Prepaid Assessments	(5,687)		(5,687)	(2,473)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	1,994	176,989	178,983	(71,778)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of investments			-	-
Sale of investments			-	-
Changes in CD's		(80,000)	(80,000)	-
CASH FLOWS FROM FINANCING ACTIVITIES				
Due to Other Fund	20,500	(20,500)	-	-
Interfund transfers	6,463	(6,463)	(0)	-
Sub Total	28,957	70,026	98,983	(71,778)
NET INCREASE (DECREASE) IN CASH	28,957	70,026	98,983	(71,778)
CASH AT BEGINNING OF YEAR	8,261	112,078	120,339	192,117
CASH AT END OF YEAR	\$ 37,218	\$ 182,104	\$ 219,322	\$ 120,339
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	\$ 177	\$ -	\$ 177	\$ -

See accompanying notes to financial statements

LA COSTA HILLS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 – ORGANIZATION

LA COSTA HILLS HOMEOWNERS ASSOCIATION was incorporated on October 30, 1989 as a nonprofit mutual benefit corporation in the State of California. Its primary purpose is to act as “management body” for the preservation, maintenance and architectural control of the common areas within the project. There are 176 units in the residential development.

NOTE 2 – DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of this report which is the date that the financial statements were available to be issued.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Fund Accounting

The Association’s accounting records are maintained on a modified accrual basis, however, the accompanying financial statements are presented on the accrual basis in accordance with generally accepted accounting principles whereby all revenues are recognized when earned and expenses are recognized when incurred.

Homeowners associations operate on a fund accounting basis whereby current expenses are paid from operating funds and major repairs and replacements are paid from accumulated replacement funds.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of owners are determined by the Board of Directors who are elected by the owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

The Association’s policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. The Association uses a guideline of 100% provision for Allowance for Doubtful Accounts for all accounts delinquent over one year, foreclosed on, in bankruptcy, or abandoned, as well as on a case by case basis of other facts and circumstances.

Property and Equipment

Real property and common areas acquired from the developer and related improvements are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

LA COSTA HILLS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICY (CONTINUED)

Cash/Cash Equivalents/Investments

Per the provisions of U.S. generally accepted accounting principles in regard to the "Statement of Cash Flows," cash equivalents consist primarily of certificates of deposits and other securities with original maturities of 90 days or less. Securities with original maturities over 90 days are generally classified as short-term investments. The Association considers all its CD/investment accounts to be short-term investments.

The Association's investments are classified as "held-to-maturity," therefore the investments are carried on the financial statements at amortized cost, and any gain or loss will be recorded at time of sale.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the report date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and assumptions, if made.

NOTE 4 – INCOME TAXES

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528 and California Revenue and Taxation Code 23701t whereby the Association incurs corporation income taxes on income from non-member sources only, such as interest. The applicable tax rate is 30% for the federal government and 8.84% for the Franchise Tax Board. Generally, the Association treats income tax expenses as an operating expense regardless of the fund through which the related taxable income was recognized.

The Association's income tax returns are subject to examination by the Internal Revenue Service generally for three years after they are filed, and by the Franchise Tax Board for four years after they are filed. In evaluating the Association's tax positions and accruals, the Association believes that the estimates are appropriate based on the current facts and circumstances.

NOTE 5 – SPECIAL ASSESSMENTS

The Association assessed one time Special Assessment of \$186 per unit due and payable on June 1, 2017 for the purpose of replacing carport roofs.

LA COSTA HILLS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association’s governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are to be held in separate interest-bearing accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study in October of 2017 to estimate the remaining useful lives and the replacement costs of the common property components.

The Association should fund such major repairs and replacements over the estimated useful lives of the components based on the study’s estimates of current replacements costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary materially from the estimates. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds turn out to be necessary, the Association has the right, subject to member approval, to increase regular assessments, levy special assessments or delay major repairs and replacements until funds become available. The Association spent \$84,063 for major repairs and replacements.

Plumbing	\$ 14,323
Contingencies	9,840
Deck/Balconies & Railings	4,416
Exterior Surfaces	8,215
Gate Expense	930
Termite Abatement	4,120
Rec Building, Furniture & Equip	10,008
Retaining Wall	5,838
Precision Concrete	13,998
Engineering	5,000
Roofing- Gutters	7,375
	\$ 84,063

LA COSTA HILLS HOMEOWNERS ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2017
(COMPILED)

The Association engaged an independent consultant to estimate the remaining useful lives and the replacement costs of the common area replacement components during October of 2017.

The estimates were based on inspection by the independent consultant, and the information provided by the Board of Directors, property manager and others familiar with the development. Replacement costs were based on the estimated costs to repair or replace the common area replacement components at the time of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

	Estimated	Estimated		Fully
	Remaining	Current	Annual	Funded
	Useful	Replacement	Funding	Reserve
Category	Lives(Years)	Costs	Requirement	Requirement
General Common Areas	0-14	247,145	29,124	123,118
Pool/Spa	0-22	156,492	11,797	63,415
Tennis	0-16	35,045	3,954	30,206
Recreation Building	0-21	114,977	13,524	63,628
Hardscape	0-11	109,420	19,710	56,311
Buildings	0-23	2,035,570	177,491	1,034,805
Totals		<u>\$ 2,698,649</u>	<u>\$ 255,600</u>	<u>\$ 1,371,483</u>

As of December 31, 2017, the annual budgeted allocation to replacements is \$246,000 and the cash/cash equivalent/investments in replacement funds as of December 31, 2017 total \$262,104.

California Civil Code requires a physical inspection every three years. The reserve study must be reviewed annually and updated as necessary. The report must be available to all owners. Although the code does not require adequate funding, disclosure must be made.