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BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
Financial Statements And
Supplementary Information
Year Ended December 31, 2016

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION

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FRISBEY, CARTER AND ASSOCIATES
AN ACCOUNTANCY CORPORATION

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members of:
Bernardo Santa Fe Homeowners' Association

We have reviewed the accompanying financial statements of Bernardo Santa Fe Homeowners' Association, which comprise the balance sheet as of December 31, 2016, 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.

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 accordance 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 page 8 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 compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Respectfully,
FRISBEY, CARTER AND ASSOCIATES

Charles C. Frisbey, CPA
Cerritos, California

February 2, 2017

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
ASSETS			
Cash and cash equivalents	\$ 9,520	\$ 517,510	\$ 527,030
Assessments receivable, less allowance for uncollectible assessments of \$2,980	1,741	-	1,741
Prepaid expenses	<u>1,586</u>	<u>-</u>	<u>1,586</u>
TOTAL ASSETS	<u>\$ 12,847</u>	<u>\$ 517,510</u>	<u>\$ 530,357</u>
 LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 17,187	\$ -	\$ 17,187
Income tax payable	953	-	953
Assessments received in advance	<u>10,666</u>	<u>-</u>	<u>10,666</u>
TOTAL LIABILITIES	28,806	-	28,806
 FUND BALANCES (DEFICITS)	 <u>(15,959)</u>	 <u>517,510</u>	 <u>501,551</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 12,847</u>	<u>\$ 517,510</u>	<u>\$ 530,357</u>

See accompanying notes and independent accountant's review report.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2016

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Assessments	\$ 216,852	\$ 40,788	\$ 257,640
Interest	11	5,220	5,231
Other income	710	-	710
	<u>217,573</u>	<u>46,008</u>	<u>263,581</u>
EXPENSES			
Bad debt expense	2,980	-	2,980
Gardening and landscaping	125,289	-	125,289
Printing & mailing	5,899	-	5,899
Income tax expense	953	-	953
Insurance	3,359	-	3,359
Legal and professional	1,765	-	1,765
Maintenance and repair	5,858	29,073	34,931
Management service	15,369	-	15,369
Miscellaneous	771	-	771
Utilities	67,114	-	67,114
	<u>229,357</u>	<u>29,073</u>	<u>258,430</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(11,784)	16,935	5,151
BEGINNING FUND BALANCES (DEFICITS)	<u>(4,175)</u>	<u>500,575</u>	<u>496,400</u>
ENDING FUND BALANCES (DEFICITS)	<u>\$ (15,959)</u>	<u>\$ 517,510</u>	<u>\$ 501,551</u>

See accompanying notes and independent accountant's review report.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficiency) of revenues over expenses	\$ (11,784)	\$ 16,935	\$ 5,151
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Allowance for uncollectible assessments	2,980	-	2,980
(Increase) decrease in:			
Assessments receivable	(3,586)	-	(3,586)
Prepaid expenses	(15)	-	(15)
Increase (decrease) in:			
Accounts payable	15,217	-	15,217
Income tax payable	307	-	307
Assessments received in advance	2,366	-	2,366
	<u>5,485</u>	<u>16,935</u>	<u>22,420</u>
NET INCREASE (DECREASE) IN CASH			
CASH AT BEGINNING OF YEAR	<u>4,035</u>	<u>500,575</u>	<u>504,610</u>
	<u>\$ 9,520</u>	<u>\$ 517,510</u>	<u>\$ 527,030</u>
CASH AT END OF YEAR			
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ 641	\$ -	\$ 641

See accompanying notes and independent accountant's review report.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 1: NATURE OF ORGANIZATION

Bernardo Santa Fe Homeowners' Association was incorporated on February 10, 1998 in the state of California. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 113 residential units located in Escondido, California.

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 February 2, 2017, the date that the financial statements were available to be issued.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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. The Association capitalizes personal property at cost and depreciates it using the straight line method.

Cash Equivalents

Cash equivalents include certificates of deposits, money market accounts, and other short-term investments with original maturities of three months or less.

Investments

Treasury bills, and certificates of deposit, with maturities of three months or more are classified as investments. They are reported on the balance sheet at cost. Interest income is reported in the statement of revenues, expenses, and fund balances in the appropriate fund.

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. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are fifteen days or more delinquent. The Association considers all assessments receivable at December 31, 2016 to be fully collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Bad Debts

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. For the year ended December 31, 2016, the association has not written off any of the assessments receivable.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statement and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 4: INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. For the year ended December 31, 2016, a provision has been made for federal and state income taxes of \$579 and \$374 respectively.

The Association has adopted the accounting for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are generally subject to examination by taxing authorities for three years after returns are filed. The Association's income tax returns for 2009, 2008 and 2007 remain open to examination. The Association continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

NOTE 5: ASSESSMENTS

In the fiscal year ended on December 31, 2016, regular annual assessments were payable to the Association in monthly installments of \$190 per unit per month.

The Board of Directors determines the annual budget and owners' assessments. Annual budgets are approved and assessments are divided between the operating fund to meet normal operating costs and contributions to the replacement-funding program. It is the Association's policy that any excess operating funds at the end of a fiscal year be applied to the following year's operating costs rather than refunded to owners.

NOTE 6: REPAIR AND REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$517,510 at December 31, 2016, are held in separate accounts and are generally not available for operating purposes. The Association engaged an independent engineer who conducted a study in November 2016 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding such major repairs and replacements over the estimated useful lives of the components based on estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE 6: REPAIR AND REPLACEMENT FUND *(continued)*

If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

BERNARDO SANTA FE HOMEOWNERS' ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2016

SCT Reserve Consultant's Inc. conducted a study in November 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

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

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Costs</u>
Access system	0 to 23	\$ 20,040
Asphalt	2 to 20	581,658
Contingency	0 0	2,000
Electrical/lights	6 to 8	30,000
Fences and gates	5 to 5	21,100
Irrigation	4 to 19	41,400
Landscape	1 to 1	15,000
Mailboxes	6 to 6	16,000
Painting	0 to 5	10,204
Signage	5 to 16	<u>10,500</u>
Totals		<u>\$ 747,902</u>

See independent accountant's review report.