

THE FOUNTAINS HOA

April 24, 2015

Dear Owners,

Please find attached for your records the 2014 fiscal year *Audited Financial Statement* prepared by a Robert A. Owens, Certified Public Accountant, as per *civil code 5305*.

The financial statement may also be viewed on The Fountains HOA web site.

Sincerely,



Angie Adams CMCA, AMS, PCAM
As directed by the Board of Directors of
The Fountains HOA

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THE FOUNTAINS HOMEOWNERS ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Fountains Homeowners Association

We have audited the accompanying financial statements of The Fountains Homeowners Association, which comprise the balance sheet as of December 31, 2014, 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 The Fountains Homeowners Association as of December 31, 2014, 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.


Robert A. Owens, CPA A PAC

April 20, 2015

THE FOUNTAINS HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash	\$ 37,423	\$ 238,855	\$ 276,278
Short-Term Investments	-	420,000	420,000
Assessments Receivable	1,705	-	1,705
Interest Receivable	-	891	891
Prepaid Taxes	767	-	767
Prepaid Insurance	17,144	-	17,144
Prepaid Expenses	500	-	500
Due From/(Due To) Other Funds	2,006	(2,006)	-
Total Assets	<u>\$ 59,545</u>	<u>\$ 657,740</u>	<u>\$ 717,285</u>
LIABILITIES AND ASSOCIATION FUNDS			
Liabilities			
Accounts Payable	\$ 2,302	\$ -	\$ 2,302
Prepaid Assessments	2,075	-	2,075
Income Taxes Payable	10	-	10
Total Liabilities	4,387	-	4,387
Commitments	-	-	-
Association Funds	<u>55,158</u>	<u>657,740</u>	<u>712,898</u>
Total Liabilities And Association Funds	<u>\$ 59,545</u>	<u>\$ 657,740</u>	<u>\$ 717,285</u>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

THE FOUNTAINS HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	\$ 221,400	\$ 142,680	\$ 364,080
Interest Income	21	2,105	2,126
Other Income	4,458	-	4,458
Total Revenue	225,879	144,785	370,664
EXPENSES			
Landscape Maintenance	55,988	3,376	59,364
Management Fees	19,336	-	19,336
Administrative	3,705	150	3,855
Legal And Audit	2,311	-	2,311
Insurance	18,866	-	18,866
Bad Debt	1,609	-	1,609
Pool	8,363	4,047	12,410
Rubbish Collection	7,599	-	7,599
Pest Control	8,169	18,173	26,342
Telephone	2,053	-	2,053
General Maintenance	660	11,885	12,545
Reserve Study	400	-	400
Gas	3,802	-	3,802
Electricity	15,593	-	15,593
Water	11,791	-	11,791
Custodial	6,020	-	6,020
Gate	5,281	-	5,281
Wood Repairs	-	5,456	5,456
Security System	-	8,167	8,167
Fountain	5,220	-	5,220
Office Payroll	1,221	-	1,221
Lighting and Electrical	5,236	-	5,236
Plumbing	140	-	140
Roof and Decks	950	186,814	187,764
Income Tax	319	-	319
Total Expenses	184,632	238,068	422,700
Excess (Deficiency) of Revenue Over Expenses	41,247	(93,283)	(52,036)
Association Funds Balance Beginning of Year	13,911	751,023	764,934
Association Funds Balance End of Year	\$ 55,158	\$ 657,740	\$ 712,898

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

THE FOUNTAINS HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash Flows From Operating Activities:			
Cash Received From Members	\$ 221,153	\$ 142,680	\$ 363,833
Cash Paid To Suppliers of Goods And Services	(183,345)	(238,068)	(421,413)
Interest Received	21	2,290	2,311
Income Taxes Paid	1,399	-	1,399
Net Cash Provided By (Used In) Operating Activities	39,228	(93,098)	(53,870)
Cash Flows From Investing Activities:			
Maturity of Short-Term Investments	-	120,000	120,000
Cash Flows From Financing Activities:			
Interfund Borrowings	(2,006)	2,006	-
Net Increase In Cash And Cash Equivalents	37,222	28,908	66,130
Cash And Cash Equivalents At Beginning of Year	201	209,947	210,148
Cash And Cash Equivalents At End of Year	\$ 37,423	\$ 238,855	\$ 276,278

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

Excess (Deficiency) of Revenue Over Expenses	\$ 41,247	\$ (93,283)	\$ (52,036)
Adjustments To Reconcile Excess (Deficiency) of Revenue Over Expenses To Net Cash Provided By Operating Activities:			
Change In Assessments Receivable	1,939	-	1,939
Change In Interest Receivable	-	185	185
Change In Prepaid Insurance	247	-	247
Change In Prepaid Taxes	1,718	-	1,718
Change In Accounts Payable	(888)	-	(888)
Change In Prepaid Assessments	(5,035)	-	(5,035)
Net Cash Provided By (Used In) Operating Activities	\$ 39,228	\$ (93,098)	\$ (53,870)

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

THE FOUNTAINS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 1 NATURE OF ORGANIZATION

The Fountains Homeowners Association was incorporated on June 23, 1977, 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 Long Beach, California. The development consists of 82 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of The Fountains Homeowners 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.

SEE INDEPENDENT AUDITORS' REPORT

THE FOUNTAINS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, projected to December 31, 2014, indicates the Association's ideal cash replacement fund balance was \$ 1,008,238 at that date. The study recommends a 2015 contribution to the replacement fund of \$ 104,040 (\$ 105.73 per owner per month). The 2015 budgeted contribution is \$ 184,992.

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. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, 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 in 2014 and certain issues are yet to be clarified. In 2014, the Association filed as an exempt corporation for federal taxes.

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 2011 through 2014 for federal purposes and 2010 through 2014 for state purposes. Income taxes for the current year were:

2014 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 165	\$ 144	\$ 10	\$ 319
Less: Credit from prior year return	(864)	(121)	-	(985)
Less: Estimated payments	-	(91)	-	(91)
Prepaid tax	\$ 699	\$ 68		\$ 767
Income tax payable			\$ 10	\$ 10

SEE INDEPENDENT AUDITORS' REPORT

THE FOUNTAINS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014
(CONTINUED)

NOTE 5 CASH AND SHORT-TERM INVESTMENTS

The Association's cash and short-term investment account balances as of December 31, 2014, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Petty Cash	-	\$ 55	-
City National Bank	-	36,875	-
Farmers & Merchants Bank	-	493	-
UBS Bank	-	201,783	-
Farmers & Merchants Bank	0.10%	13,292	-
City National Bank	-	23,780	-
Customers Bank	0.45%	60,000	January 15, 2015
Bank of Baroda	0.35%	60,000	February 4, 2015
Bank of China	0.35%	60,000	April 16, 2015
Susquehanna Bank	0.25%	60,000	May 8, 2015
Bank India	0.60%	60,000	July 29, 2015
GE Capital Bank	0.40%	60,000	August 21, 2015
Santander Bank	0.40%	60,000	September 3, 2015
Total		<u>\$ 696,278</u>	

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.

NOTE 8 ASSESSMENTS

During 2014, assessments were billed at a rate of \$ 370.00 per unit per month. Effective January 1, 2015, the rate increased to \$ 400.00 per unit per month.

NOTE 9 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 20, 2015, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
The Fountains Homeowners Association

Our report on our audit of the basic financial statements of The Fountains Homeowners Association for the year ended December 31, 2014 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 12 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.


Robert A. Owens, CPA A PAC

April 20, 2015

THE FOUNTAINS HOMEOWNERS ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS
DECEMBER 31, 2014
(UNAUDITED)

The board of directors contracted an independent consultant who conducted a September 8, 2014 study, projected to December 31, 2014, 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 0.25%.

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	2015 Funding Requirement	Recommended Fund Balances
Road Maintenance	1 year	\$ 107,052	\$ 6,500	\$ 100,552
Concrete Repairs	1 to 24 years	22,413	3,675	15,026
Roofing	1 to 35 years	857,081	30,490	506,205
Lighting	1 to 6 years	22,349	1,080	19,665
Gate House & Entrance	1 to 16 years	22,189	1,681	10,532
Painting	1 to 7 years	230,805	28,213	141,066
Fences, Gates & Walls	1 to 5 years	34,652	2,299	25,504
Landscaping	1 to 5 years	52,176	10,509	41,138
Clubhouse & Cabana	1 to 19 years	61,658	2,841	43,611
Pool & Spas	1 to 20 years	88,773	7,023	35,666
Tennis Court	1 to 2 years	5,294	882	3,766
Decks, Patios & Stairs	1 to 25 years	84,643	4,286	49,086
Fountains	1 to 22 years	32,887	3,182	6,077
Signs	3 to 6 years	17,505	1,379	10,344
Contingency	n/a	5,202	-	-
		<u>\$ 1,644,679</u>	<u>\$ 104,040</u>	<u>\$ 1,008,238</u>

As shown above, the study recommends a replacement fund balance of \$1,008,238 as of December 31, 2014 and contributions to reserves of \$104,040 during 2015. The Association's replacement fund balance at December 31, 2014 was \$657,740 or 65.24% of the recommended fund balance.