



GOLD COAST COMMUNITY MANAGEMENT
LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION

July 2017

Dear La Quinta Tennis Villas Homeowner:

Enclosed find a copy of the required independent financial audit recently prepared for the Association.

Your Board is committed in maintaining your association and is striving to make it even better. With your cooperation, this can be accomplished!

Sincerely,

Board of Directors
La Quinta Tennis Villas HOA



200 E. Katella Avenue, Orange, CA 92867 • (714) 288-2620 • (800) 521-4107 • FAX: (714) 288-2630

75-178 Gerald Ford Dr., Ste. B-1 • Palm Desert, CA 92211 • (760) 202-9880 • Fax (760) 202-9260



**LA QUINTA TENNIS VILLAS
HOMEOWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION

Table of Contents

Independent Auditors' Report	Pages 3-4
Balance Sheet with Comparative Totals	Page 5
Statement of Revenues, Expenses and Changes in Fund Balances with Comparative Totals	Page 6
Statement of Cash Flows with Comparative Totals	Page 7
Notes to Financial Statements	Pages 8-11
Supplementary Information on Future Major Repairs and Replacements	Page 12

VanDerPol & Company

A Professional Accountancy Corporation

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
La Quinta Tennis Villas Homeowners Association

Report on the Financial Statements

We have audited the accompanying financial statements of La Quinta Tennis Villas Homeowners Association, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in fund balances 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 La Quinta Tennis Villas Homeowners Association as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the La Quinta Tennis Villas Homeowners Association's December 31, 2015 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated February 5, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

A current study of the Association's replacement funding program indicates that the Association is underfunded. Accordingly, it may be necessary to increase assessments, pass special assessments, or delay future repair or replacement obligations until sufficient funds are available.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary 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.

Van Der Pol & Co.

VANDERPOL & COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

February 22, 2017

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents [Note 7]	\$ 2,016	\$ 287,625	\$ 289,641	\$ 268,260
Member assessments receivable	2,649	-	2,649	87
Prepaid insurance	17,174	-	17,174	17,596
Due (to)/from fund	(6,117)	6,117	-	-
Total Assets	<u>\$ 15,722</u>	<u>\$ 293,742</u>	<u>\$ 309,464</u>	<u>\$ 285,943</u>
LIABILITIES				
Accounts payable	\$ 5,842	\$ -	\$ 5,842	\$ 6,528
Prepaid assessments	3,615	-	3,615	9,102
Total Liabilities	9,457	-	9,457	15,630
FUND BALANCES	<u>6,265</u>	<u>293,742</u>	<u>300,007</u>	<u>270,313</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 15,722</u>	<u>\$ 293,742</u>	<u>\$ 309,464</u>	<u>\$ 285,943</u>

See independent auditors' report and accompanying notes to financial statements.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 254,916	\$ 73,404	\$ 328,320	\$ 320,832
Interest	--	55	55	43
Bad debt recovery	--	--	--	3,148
Other income	995	--	995	160
Total Revenues	<u>255,911</u>	<u>73,459</u>	<u>329,370</u>	<u>324,183</u>
EXPENSES				
Utilities:				
Electricity	11,879	--	11,879	10,184
Water	9,753	--	9,753	8,124
Gas	8,796	--	8,796	8,336
Cable television	26,304	--	26,304	25,733
Maintenance:				
Landscape maintenance and supplies	90,354	--	90,354	72,217
Tree maintenance	6,630	--	6,630	9,508
Lighting maintenance and supplies	3,148	--	3,148	1,656
Pool service, supplies and repairs	11,156	--	11,156	7,625
Pest control	2,893	--	2,893	2,790
Gate house expenses	33,394	--	33,394	28,796
Other common area maintenance	3,928	--	3,928	7,162
Replacement fund [Note 10]	--	31,312	31,312	6,500
Administrative:				
Insurance	33,379	--	33,379	36,363
Management fees	15,000	--	15,000	15,000
Professional fees	3,591	--	3,591	5,917
Postage and printing expense	4,260	--	4,260	4,184
Other administrative expenses	3,899	--	3,899	2,235
Total Expenses	<u>268,364</u>	<u>31,312</u>	<u>299,676</u>	<u>252,330</u>
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	(12,453)	42,147	29,694	71,853
Beginning Fund Balances	<u>18,718</u>	<u>251,595</u>	<u>270,313</u>	<u>198,460</u>
Ending Fund Balances	<u>\$ 6,265</u>	<u>\$ 293,742</u>	<u>\$ 300,007</u>	<u>\$ 270,313</u>

See independent auditors' report and accompanying notes to financial statements.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Excess of revenues over/(under) expenses:	\$ (12,453)	\$ 42,147	\$ 29,694	\$ 71,853
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:				
Increase in member assessments receivable	(2,562)	--	(2,562)	(84)
Decrease in prepaid insurance	422	--	422	3,335
Increase/(decrease) in accounts payable	(686)	--	(686)	1,279
Increase/(decrease) in prepaid assessments	(5,487)	--	(5,487)	20
Change in due to/(from) fund	<u>6,117</u>	<u>(6,117)</u>	<u>--</u>	<u>--</u>
Net increase/(decrease) in cash	(14,649)	36,030	21,381	76,403
Cash at beginning of year	<u>16,665</u>	<u>251,595</u>	<u>268,260</u>	<u>191,857</u>
Cash at end of year	<u>\$ 2,016</u>	<u>\$ 287,625</u>	<u>\$ 289,641</u>	<u>\$ 268,260</u>

See independent auditors' report and accompanying notes to financial statements.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1. ORGANIZATION

La Quinta Tennis Villas Homeowners Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in March 1984. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 48 residential units and is located in La Quinta, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained on a modified accrual basis of accounting. For these financial statements, adjustments have been made at December 31, 2016 to convert the Association's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

(b) Capitalization Policy and Depreciation - In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either operating or replacement funds in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended December 31, 2016, there were no significant personal property additions.

(c) Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, funds are separated into two categories, the operating fund and the replacement fund. Disbursements from the replacement fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the operating fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

(d) Investment Income - The Board's policy is to allocate interest earned on replacement fund cash accounts to the replacement fund, and to pay the related income taxes out of the operating fund.

(e) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

(f) Subsequent Events - Subsequent events have been evaluated through February 22, 2017, which is the date the financial statements were available to be issued.

NOTE 3. COMPARATIVE FINANCIAL STATEMENTS

The financial statements include certain prior year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 4. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a homeowners association [under Internal Revenue Code Section 528]. For the year ended December 31, 2016, the Association elected to file as a homeowners association, where generally the association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For California purposes, the Association also qualifies for tax exempt status as a homeowners association and pays a tax of 8.84% on income not related to membership dues and assessments. For the year ended December 31, 2016, there was no federal or California income tax expense.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

NOTE 5. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at December 31, 2016 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner.

For the year ended December 31, 2016, the Association's monthly assessment was \$570 per unit. For 2017, the monthly assessment is budgeted to remain at \$570 per unit.

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 6. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

An independent study of the Association's replacement funding program, which was conducted in May 2016, indicates that the Association is underfunded. Accordingly, the study recommends a contribution to the replacement fund of approximately \$457,780 (\$794.76 per unit per month) for 2017. The study's recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the replacement funds. For the year ended December 31, 2016, the Association funded \$73,404 from assessments to the replacement fund. The 2017 budget includes a provision for replacement funding of \$80,604 (\$139.94 per unit per month). The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

Replacement funds are being accumulated based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At December 31, 2016 and 2015, the Association maintained cash balances at the following institution:

<u>Operating Fund:</u>	<u>2016</u>	<u>2015</u>
Union Bank - checking	<u>\$ 2,016</u>	<u>\$ 16,665</u>
<u>Replacement Fund:</u>		
Union Bank - checking with interest	<u>\$ 287,625</u>	<u>\$ 251,595</u>

NOTE 8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended December 31, 2016. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 9. CONCENTRATION OF RISK

At December 31, 2016, the Association maintained funds at one financial institution whereby the cumulative balances on account exceeded FDIC insurance limits of \$250,000. At December 31, 2016, \$39,641 was exposed to this risk.

LA QUINTA TENNIS VILLAS HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 10. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Pool/spa repairs	\$ 13,392	\$ --
Irrigation	11,800	--
Roof repairs	4,800	3,900
Door repairs	1,320	--
Drainage repairs	--	2,600
	<u> </u>	<u> </u>
Total	<u>\$ 31,312</u>	<u>\$ 6,500</u>