

LAKE MISSION VIEJO ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016

WITH

**INDEPENDENT AUDITOR'S REPORT
AND SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors Lake Mission Viejo Association

We have audited the accompanying financial statements of Lake Mission Viejo Association, a California non-profit corporation, 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.

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 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 risk 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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

**Board of Director
Lake Mission Viejo Association**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lake Mission Viejo Association as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles of the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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.

Invisible Accounting Solutions

Lake Forest, California
April 11, 2017

**LAKE MISSION VIEJO ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2016**

ASSETS

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,819,037	\$ 470,856	\$ 52,216	\$ 6,570	\$ 2,348,679
Investments, net	-	3,529,923	999,000	200,000	4,728,923
Assessments receivable, net of allowance for uncollectible assessments of \$364,000	116,665	-	-	-	116,665
Prepaid expenses and other current assets	<u>57,692</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,692</u>
	1,993,394	4,000,779	1,051,216	206,570	7,251,959
LONG TERM INVESTMENTS					
Investments, net	<u>-</u>	<u>1,493,000</u>	<u>-</u>	<u>-</u>	<u>1,493,000</u>
	<u>\$ 1,993,394</u>	<u>\$ 5,493,779</u>	<u>\$ 1,051,216</u>	<u>\$ 206,570</u>	<u>\$ 8,744,959</u>

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES					
Accounts payable and accrued expenses	\$ 35,033	\$ -	\$ -	\$ -	\$ 35,033
Accrued payroll and related expenses	221,813	-	-	-	221,813
Deferred revenues	1,513,180	-	-	-	1,513,180
Other payables	<u>2,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>
	1,772,526	-	-	-	1,772,526
COMMITMENTS AND CONTINGENCIES					
FUND BALANCE	<u>220,868</u>	<u>5,493,779</u>	<u>1,051,216</u>	<u>206,570</u>	<u>6,972,433</u>
	<u>\$ 1,993,394</u>	<u>\$ 5,493,779</u>	<u>\$ 1,051,216</u>	<u>\$ 206,570</u>	<u>\$ 8,744,959</u>

LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Capital Expansion Fund	Contingency Fund	Total
REVENUES					
Assessments	\$ 5,226,800	\$ 528,700	\$ -	\$ -	\$ 5,755,500
Boat rental and storage	491,003	-	-	-	491,003
Interest	49,185	-	-	-	49,185
Recreation and sales	372,847	-	-	-	372,847
Other	591,255	-	-	-	591,255
	<u>6,731,090</u>	<u>528,700</u>	<u>-</u>	<u>-</u>	<u>7,259,790</u>
EXPENSES					
Concerts and special events	597,447	-	-	-	597,447
Consulting and outside services	324,785	-	-	-	324,785
Fish stocking	181,410	-	-	-	181,410
General and administrative	298,187	-	-	-	298,187
Insurance	170,306	-	-	-	170,306
Lake refill and quality management	270,192	-	-	-	270,192
Maintenance and repairs	435,300	739,601	162,737	108,259	1,445,897
Professional services	157,237	-	-	-	157,237
Salaries and related	3,633,021	-	-	-	3,633,021
Uncollectible membership dues and fees	24,000	-	-	-	24,000
Utilities	167,580	-	-	-	167,580
	<u>6,259,465</u>	<u>739,601</u>	<u>162,737</u>	<u>108,259</u>	<u>7,270,062</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	471,625	(210,901)	(162,737)	(108,259)	(10,272)
BEGINNING FUND BALANCE	115,000	5,488,923	1,063,953	314,829	6,982,705
INTERFUND TRANSFERS	<u>(365,757)</u>	<u>215,757</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
ENDING FUND BALANCE	<u>\$ 220,868</u>	<u>\$ 5,493,779</u>	<u>\$ 1,051,216</u>	<u>\$ 206,570</u>	<u>\$ 6,972,433</u>

**LAKE MISSION VIEJO ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Capital Expansion Fund</u>	<u>Contingency Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (deficiency) of revenues over expenses	\$ 471,625	\$ (210,901)	\$ (162,737)	\$ (108,259)	\$ (10,272)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:					
Interfund transfers	(365,757)	215,757	150,000	-	-
(Increase) decrease in:					
Assessment receivable	17,463	-	-	-	17,463
Prepaid expenses and other assets	186,862	-	-	-	186,862
Increase (decrease) in:					
Accounts payable and accrued expenses	(84,797)	-	-	-	(84,797)
Accrued payroll and related expenses	4,314	-	-	-	4,314
Deferred revenues	52,973	-	-	-	52,973
Other payables	(500)	-	-	-	(500)
	<u>282,183</u>	<u>4,856</u>	<u>(12,737)</u>	<u>(108,259)</u>	<u>166,043</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Redemptions of investments	-	15,535,000	994,000	240,000	16,769,000
Purchase of investments	-	(16,172,923)	(999,000)	(200,000)	(17,371,923)
	<u>-</u>	<u>(637,923)</u>	<u>(5,000)</u>	<u>40,000</u>	<u>(602,923)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	282,183	(633,067)	(17,737)	(68,259)	(436,880)
BEGINNING CASH AND CASH EQUIVALENTS	<u>1,536,854</u>	<u>1,103,923</u>	<u>69,953</u>	<u>74,829</u>	<u>2,785,559</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 1,819,037</u>	<u>\$ 470,856</u>	<u>\$ 52,216</u>	<u>\$ 6,570</u>	<u>\$ 2,348,679</u>

**LAKE MISSION VIEJO ASSOCIATION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

Organization

Lake Mission Viejo Association (the “Association”) was incorporated in California in November 1976. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of residential units and apartment units located in Mission Viejo, California. At December 31, 2016, the development consisted of 24,401 units.

Date of Management’s Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 11, 2017, the date the financial statements were available to be issued.

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 and management. Disbursements from the replacement, capital expansion, and contingency funds, generally may be made only for designated purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

Concentration of Risk

Cash balances are maintained at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000. Periodically, due to the Association’s assessment billing cycle, operating cash may temporarily be deposited in various accounts, and could exceed the FDIC limits at each financial institution. At December 31, 2016, balances at Mutual of Omaha exceeded the FDIC limit by approximately \$950,000.

Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when purchased. The Association’s cash equivalent balances as of December 31, 2016 totaled approximately \$950,000 and are kept in money market funds at Comerica, Mutual of Omaha, and Seacoast Commerce. Comerica money markets invest in government obligations and are not FDIC insured.

**LAKE MISSION VIEJO ASSOCIATION
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Investments and Interest Earnings

Investments consist of time certificates of deposit with annual interest rates ranging from 0.4% to 1.2%. Investments are recorded at amortized cost, which approximates fair market value. The Association intends to hold all investments until maturity. All interest earnings are allocated to and recorded in the operating fund.

Assessments and Deferred Revenue

Association members are subject to assessments to provide funds for the Association's operating expenses and replacement fund requirements. Assessments receivable at the balance sheet date represent fees due from members. The Association's governing documents and legislated laws provide for various collection remedies for delinquent assessments including late charges, filing of liens, foreclosing on the member's property within the Association, and obtaining judgment on other assets of the member.

Assessments collected in advance are deferred and recognized as revenue in the year in which the related services are rendered.

Allowance for Uncollectible Assessments

Allowance for uncollectible assessments is based upon historical experience and management's evaluation of outstanding assessments receivable at year-end.

Property and Equipment

The developer of the Association donated the majority of the property and equipment. Valuation of these items was made as of the date of transfer to the Association. Personal property purchased by the Association and replacements and improvements to the real property are not capitalized and are expensed as incurred. The expense is charged to either the replacement or the capital expansion funds, in accordance with the guidelines within those funds.

Income Taxes

The Association has obtained exemption from taxation under Internal Revenue Code 501(c)(4) and related California Revenue and Taxation Code sections. Accordingly, no provision for Federal or state taxes has been made in the accompanying financial statements.

Replacement Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are kept in separate accounts and are generally not available for normal operations. Disbursements are to be made only if specifically approved by the Board of Directors. An independent study (the "Study") of the Association's replacement fund was conducted in September 2016, for the purpose of estimating the remaining useful lives and the replacement costs of the components of common property. The table included in the accompanying unaudited supplemental information on Future Major Repairs and Replacements is based upon the Study.

**LAKE MISSION VIEJO ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 1: COMMITMENTS AND CONTINGENCIES

Replacement Fund

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the Study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of approximately \$648,000 has been included in the 2017 budget.

For the year ended December 31, 2016 the contributions to the replacement fund totaled approximately \$529,000.

Funds are being accumulated in the repair and replacement fund based on estimates of future needs for repairs and replacements of common area property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the repair and replacement fund may not be sufficient to meet all future repairs and replacements. If additional funds are necessary, the Association has the right to increase regular assessments, approve special assessments, or delay major repairs and replacements until funds are available.

Capital Expansion and Contingency Funds

The Association has established a policy to accumulate funds for capital expansion and other unforeseen expenses. Annually the Association includes nominal amounts in the budget for capital expansion and contingency funds. In accordance with the Association's policy, upon completion of accounting at each year-end, any excess operating income is transferred to the replacement, capital expansion and contingency funds. For the year ended December 31, 2016 the contributions, to the replacement and capital expansion funds totaled approximately \$216,000 and \$150,000, respectively.

Litigation

At times, the Association is involved in litigation arising out of the normal course of business. Management, after consultation with outside counsel, believes there is no likelihood that the Association will incur any material loss as a result of these lawsuits. Therefore, no provision for loss resulting from these lawsuits has been made in the accompanying financial statements.

SUPPLEMENTARY INFORMATION
(Unaudited)

DECEMBER 31, 2016

**LAKE MISSION VIEJO ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
(Unaudited)**

In September 2016, an independent study was conducted to estimate the remaining useful lives and future replacement costs of the components of the common area property. An independent company that specializes in the development of these funding programs performed the study. The funding program considers an annual inflation rate of 2% on the replacement cost, and does not consider interest earnings on amounts funded for future repairs and replacements. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The Association has not adjusted for changes in the estimated replacement costs, if any, since the date of the study.

The following information is based on the study and presents significant information about the components of common property at December 31, 2016. The reserve study should be referred to for a more complete description of the Association's assets and estimates used.

<u>Component</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance</u>
Automobiles	1 to 8	\$ 276,650	\$ 223,782
Carpeting/Flooring	1 to 20	53,662	16,436
Small equipment	0 to 4	231,907	189,338
Snack bar equipment	0 to 17	138,915	100,934
Asphalt	2 to 14	1,051,122	344,038
Boats	0 to 8	508,210	334,074
Boat motors	0 to 4	88,475	63,414
Tractors	0 to 4	78,190	55,597
Sand	0	161,400	161,400
Mini trucks/Carts	0 to 2	108,715	94,304
Maintenance equipment	0 to 15	367,160	209,284
Fencing, railing and gates	1 to 21	853,559	575,728
Recreation structures	0 to 24	2,511,304	1,667,992
Landscape and irrigation	2	62,595	420,090
Lighting	0 to 24	510,230	82,433
Lake equipment	1 to 13	138,975	124,687
Air conditioning equipment	0 to 9	75,295	60,240
Painting	1 to 8	150,585	93,613
Other		<u>21,960</u>	<u>676,395</u>
		<u>\$ 7,388,909</u>	<u>\$ 5,493,779</u>