



Newport Shores Community Association

910 Calle Negocio, Suite 200, San Clemente, CA 92673

Office (949) 661-7767 Fax (949) 661-5696

June 25, 2014

Re: NEWPORT SHORES COMMUNITY ASSOCIATION
Audited Financial Statements

Dear Member:

Enclosed you will find the audited financial statements for the Newport Shores Community Association for the fiscal year ending February 28, 2014, as prepared by VanDerPol & Company, a professional accounting corporation. This report has been reviewed and accepted by the Board of Directors of the Newport Shores Community Association.

Please retain this important document for your records. In the event of a home sale or refinance, you will need to provide it to the prospective buyer or lender.

Should you have any questions or concerns regarding the enclosed information, please submit your inquiry in written form to the Board of Directors at the address listed above.

Sincerely,

THE BOARD OF DIRECTORS
NEWPORT SHORES COMMUNITY ASSOCIATION

Enclosure

VanDerPol & Company

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

Formerly doing business as Schorwit & Company
(714) 437-1025, FAX (714) 437-5900

June 24, 2014

Newport Shores Community Association
c/o AMMCOR
910 Calle Negocio, Suite 200
San Clemente, CA 92673

To the Board of Directors:

Enclosed you will find the final version of the financial statements for Newport Shores Community Association. These statements should be distributed to the owners, in their **entirety**. If you should have any questions, please contact our office for further explanation.

Again, it has been a pleasure providing service for your Association.

Very truly yours,



VanDerPol & Company, A PAC

Enclosures

NEWPORT SHORES COMMUNITY ASSOCIATION
AUDITED FINANCIAL STATEMENTS
FEBRUARY 28, 2014 AND 2013

NEWPORT SHORES COMMUNITY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Newport Shores Community Association

Report on the Financial Statements

We have audited the accompanying financial statements of Newport Shores Community Association, which comprise the balance sheets as of February 28, 2014, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years 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 audits. We conducted our audits 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 Newport Shores Community Association as of February 28, 2014, and the results of its operations and its cash flows for the years 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 Newport Shores Community Association's 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated June 3, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 PAC

June 2, 2014

NEWPORT SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF FEBRUARY 28, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	<u>2014</u>			<u>2013</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents [Note 7]	\$ 171,728	\$ 109,448	\$ 281,176	\$ 261,187
Member assessments receivable, less allowance for doubtful collection of \$8,800 at 2/28/14 and \$5,400 at 2/28/13	1,759	--	1,759	2,590
Clubhouse, less accumulated depreciation of \$103,012 at 2/28/14 and \$92,962 at 2/28/13	298,982	--	298,982	309,032
Accrued interest receivable	--	--	--	61
Prepaid expenses	2,494	--	2,494	4,445
Total Assets	<u>\$ 474,963</u>	<u>\$ 109,448</u>	<u>\$ 584,411</u>	<u>\$ 577,315</u>
LIABILITIES				
Accounts payable	\$ 7,798	\$ --	\$ 7,798	\$ 8,119
Prepaid assessments	142,297	--	142,297	137,781
Loan payable [Note 11]	--	--	--	28,734
Accrued interest payable	--	--	--	156
Income taxes payable	--	--	--	10
Total Liabilities	150,095	--	150,095	174,800
FUND BALANCES	<u>324,868</u>	<u>109,448</u>	<u>434,318</u>	<u>402,515</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 474,963</u>	<u>\$ 109,448</u>	<u>\$ 584,411</u>	<u>\$ 577,315</u>

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

NEWPORT SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED FEBRUARY 28, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 191,904	\$ 34,443	\$ 226,347	\$ 226,222
Interest	--	110	110	71
Other Income	12,335	--	12,335	11,658
Total Revenues	<u>204,239</u>	<u>34,553</u>	<u>238,792</u>	<u>237,951</u>
EXPENSES				
Utilities:				
Electricity	13,113	--	13,113	11,431
Water	3,827	--	3,827	3,334
Gas	21,889	--	21,889	19,864
Refuse	2,372	--	2,372	1,932
Telephone	1,400	--	1,400	680
Maintenance:				
Landscape maintenance and supplies	8,867	--	8,867	7,401
Patrol services	1,791	--	1,791	2,468
Pool service, supplies and repairs	17,426	--	17,426	18,022
Lifeguards and related expenses	19,375	--	19,375	19,911
Janitorial service and supplies	7,109	--	7,109	6,793
Pest control	510	--	510	510
Gate repairs	500	--	500	2,590
Other common area maintenance	17,234	--	17,234	8,260
Replacement fund [Note 9]	--	22,450	22,450	14,459
Administrative:				
Insurance	14,011	--	14,011	12,948
Management fees	16,000	--	16,000	16,000
Professional fees	3,390	--	3,390	4,478
Income taxes [Note 4]	--	--	--	10
Postage and printing expense	5,131	--	5,131	5,573
Other administrative expenses	11,900	--	11,900	13,334
Social expense	4,676	--	4,676	6,694
Depreciation expense	10,050	--	10,050	10,050
Interest expense	570	--	570	3,759
Bad debt expense/(recovery)	3,400	--	3,400	(190)
Total Expenses	<u>184,541</u>	<u>22,450</u>	<u>206,991</u>	<u>190,411</u>
EXCESS OF REVENUES OVER EXPENSES	19,698	12,103	31,801	47,540
Beginning Fund Balances	<u>305,170</u>	<u>97,345</u>	<u>402,515</u>	<u>354,975</u>
Ending Fund Balances	<u>\$ 324,868</u>	<u>\$ 109,448</u>	<u>\$ 434,316</u>	<u>\$ 402,515</u>

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

NEWPORT SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 28, 2014
(WITH COMPARATIVE TOTALS FOR 2013)

	2014			2013
	Operating Fund	Replacement Fund	Total	Total
Excess of revenues over expenses:	\$ 19,698	\$ 12,103	\$ 31,801	\$ 47,540
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:				
Depreciation expense	10,050	--	10,050	10,050
(Increase)/decrease in member assessments receivable	831	--	831	(2,188)
(Increase)/decrease in accrued interest receivable	--	61	61	(61)
(Increase)/decrease in prepaid expenses	1,951	--	1,951	(1,392)
Decrease in accounts payable	(321)	--	(321)	(2,713)
Increase in prepaid assessments	4,516	--	4,516	29,224
Decrease in accrued interest payable	(156)	--	(156)	(226)
Decrease in income taxes payable	(10)	--	(10)	--
Net cash provided by operating activities	<u>36,559</u>	<u>12,164</u>	<u>48,723</u>	<u>80,234</u>
Cash used by financing activities:				
Principal payments on loan payable [Note 11]	<u>(28,734)</u>	<u>--</u>	<u>(28,734)</u>	<u>(49,875)</u>
Net increase in cash	7,825	12,164	19,989	30,359
Cash at beginning of year	<u>163,903</u>	<u>97,284</u>	<u>261,187</u>	<u>230,828</u>
Cash at end of year	<u>\$ 171,728</u>	<u>\$ 109,448</u>	<u>\$ 281,176</u>	<u>\$ 261,187</u>

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

NEWPORT SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014

NOTE 1. ORGANIZATION

Newport Shores Community Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in April 1960. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. Designated owners are required to belong to the Association as specified in each owner's deed of trust. The Association consists of 451 members units and is located in Newport Beach, 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 audited financial statements, adjustments have been made at February 28, 2014 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 February 28, 2014, 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 June 2, 2014 which is the date the financial statements were available to be issued.

NEWPORT SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014

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 February 28, 2013, from which the summarized information was derived.

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 February 28, 2014, 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 February 28, 2014, 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 February 28, 2014 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. At February 28, 2014, the Association has recorded an allowance for uncollectible assessments of \$8,800. This allowance represents an estimated amount which was calculated using historical collection information.

For the year ended February 28, 2014, the Association's annual assessment was \$501.60 per unit. For the 2014/2015 fiscal year, the annual assessment has been lowered to \$500 per unit.

NEWPORT SHORES COMMUNITY ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FEBRUARY 28, 2014

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.

An independent study of the Association's replacement funding program was conducted in October 2013 and recommends a contribution to the replacement fund of approximately \$33,669 for the 2014/2015 fiscal year. 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 February 28, 2014, the Association funded \$34,443 from assessments to the replacement fund. The 2014/2015 budget includes a provision for replacement funding of \$62,475. 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 February 28, 2014 and 2013, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2014</u>	<u>2013</u>
Pacific Western Bank - checking	<u>\$ 171,728</u>	<u>\$ 163,903</u>
 <u>Replacement Fund:</u>		
Wells Fargo Bank - savings	\$ 105,234	\$ 93,563
Wells Fargo Bank - Checking with Interest	<u>4,214</u>	<u>3,721</u>
Total Cash - Replacement Fund	<u>\$ 109,448</u>	<u>\$ 97,284</u>

NEWPORT SHORES COMMUNITY ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FEBRUARY 28, 2014

NOTE 8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended February 28, 2014. Cash paid for interest on the bank loan amounted to \$756. There were no non-cash investing or financing transactions during the year.

NOTE 9. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended February 28, 2014 and 2013 are as follows:

	2014	2013
Pool area	\$ 7,398	\$ 618
Pool repairs	7,195	--
Barbeques	5,244	--
Clubhouse	2,613	--
Painting	--	6,950
Security equipment	--	6,240
Sign	--	651
Total	\$ 22,450	\$ 14,459

NOTE 10. CONCENTRATION OF RISK

At February 28, 2014, the Association maintained funds at one financial institution whereby the cumulative balances on account exceeded FDIC insurance limits of \$250,000. At February 28, 2014, \$31,176 was exposed to this risk.

NOTE 11. BANK LOAN

In conjunction with the clubhouse reconstruction in 2002, the Association obtained a \$400,000 non-revolving line of credit. In 2003, the line of credit was converted to a fully amortizing loan. During the year, the Association paid off the balance of the loan.

NOTE 12. RELATED PARTY TRANSACTION

During the year the Association paid homeowners \$3,078 for newsletter services, \$4,395 for general maintenance, and children of homeowners \$2,155 for pool area maintenance.

NEWPORT SHORES COMMUNITY ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF FEBRUARY 28, 2014
 (UNAUDITED)

An independent reserve study was conducted in October 2013 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 2.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been allocated for future repairs and replacements, earning a yield on investments of 1.0%.

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

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2014/2015 Recommended Funding Requirement</u>	<u>Study's Recommended Fund Balance</u>
Painting	0-6 years	\$ 8,796	\$ 2,383	\$ 4,583
Lighting	7-15 years	30,745	2,438	16,905
Roofs	10 years	7,063	760	3,532
Pool/spa	2-16 years	84,791	8,192	41,613
Asphalt	2-14 years	16,832	1,860	6,355
Fences/walls	6-22 years	62,167	3,817	23,709
Clubhouse	0-15 years	105,065	8,635	47,201
Park areas	0-11 years	44,601	4,394	38,639
Monument sign	6 years	3,800	209	2,809
Contingency	N/A years	--	981	5,560
Total		<u>\$ 363,860</u>	<u>\$ 33,669</u>	<u>\$ 190,906</u>
Replacement Fund balance at 2/28/14:				<u>\$ 109,448</u>