

**CATHEDRAL VILLAS OWNERS ASSOCIATION**

Reviewed Financial Statements

For The Year Ended December 31, 2017

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**OWENS, MOSKOWITZ AND ASSOCIATES, INC.**

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**INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

Board of Directors  
Cathedral Villas Owners Association

We have reviewed the accompanying financial statements of Cathedral Villas Owners Association, which comprise the balance sheet as of December 31, 2017, 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**

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.

**Emphasis-of- Matter Regarding Supplemental Information**

The Association has not prepared a current year study to estimate the remaining lives and replacement costs of the common property and, therefore, has not presented an updated schedule that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements. The most current study, conducted as of December 31, 2014, is presented, but may no longer be valid.

Owens, Moskowitz and Associates, Inc.

April 3, 2018

*Owens, Moskowitz and Associates, Inc.*

CATHEDRAL VILLAS OWNERS ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>ASSETS</b>			
Cash	\$ 17,785	\$ 143,142	\$ 160,927
Assessments Receivable	51,876	-	51,876
Less: Allowance For Doubtful Accounts	(39,327)	-	(39,327)
Prepaid Insurance	90	-	90
Prepaid Expenses	375	-	375
Fixed Assets	3,396	-	3,396
Accumulated Depreciation	(2,717)	-	(2,717)
<b>Total Assets</b>	<b>\$ 31,478</b>	<b>\$ 143,142</b>	<b>\$ 174,620</b>
<b>LIABILITIES AND ASSOCIATION FUNDS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 3,383	\$ -	\$ 3,383
Prepaid Assessments	16,424	-	16,424
Deferred Laundry Income	2,750	-	2,750
Income Taxes Payable	10	-	10
<b>Total Liabilities</b>	<b>22,567</b>	<b>-</b>	<b>22,567</b>
Commitments	-	-	-
<b>Association Funds</b>	<b>8,911</b>	<b>143,142</b>	<b>152,053</b>
<b>Total Liabilities And Association Funds</b>	<b>\$ 31,478</b>	<b>\$ 143,142</b>	<b>\$ 174,620</b>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT AND ACCOMPANYING NOTES

CATHEDRAL VILLAS OWNERS ASSOCIATION  
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUE</b>			
Assessments	\$ 211,550	\$ 42,850	\$ 254,400
Laundry Income	9,051	-	9,051
Other Income	11,976	-	11,976
<b>Total Revenue</b>	<b>232,577</b>	<b>42,850</b>	<b>275,427</b>
<b>EXPENSES</b>			
Landscape Maintenance	12,696	-	12,696
Administrative	4,884	-	4,884
Legal and Review	5,626	-	5,626
Insurance	16,665	-	16,665
Bad Debt	4,805	-	4,805
Pool	4,874	-	4,874
Rubbish Collection	19,753	-	19,753
Pest Control	2,625	-	2,625
Internet Services	27,676	-	27,676
General Maintenance	51,121	-	51,121
Depreciation	679	-	679
Gas	14,072	-	14,072
Electricity	32,372	-	32,372
Water	25,706	-	25,706
Owners Rebates	22,510	-	22,510
Gate	2,051	-	2,051
Accounting	5,200	-	5,200
Plumbing	19,679	-	19,679
Telephone	2,391	-	2,391
Roof and Decks	18,650	-	18,650
Income Tax	10	-	10
<b>Total Expenses</b>	<b>294,045</b>	<b>-</b>	<b>294,045</b>
<b>Excess (Deficiency) of Revenue Over Expenses</b>	<b>(61,468)</b>	<b>42,850</b>	<b>(18,618)</b>
<b>Association Funds Balance Beginning of Year</b>	<b>2,642</b>	<b>168,029</b>	<b>170,671</b>
Interfund Transfers	67,737	(67,737)	-
<b>Association Funds Balance End of Year</b>	<b>\$ 8,911</b>	<b>\$ 143,142</b>	<b>\$ 152,053</b>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT AND ACCOMPANYING NOTES

CATHEDRAL VILLAS OWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>Cash Flows From Operating Activities:</b>			
Cash Received From Members	\$ 225,492	\$ 42,850	\$ 268,342
Cash Paid To Suppliers of Goods And Services	(289,170)	-	(289,170)
Income Taxes Paid	(10)	-	(10)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(63,688)</b>	<b>42,850</b>	<b>(20,838)</b>
<b>Cash Flows From Financing Activities:</b>			
Interfund Transfers	67,737	(67,737)	-
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>4,049</b>	<b>(24,887)</b>	<b>(20,838)</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>13,736</b>	<b>168,029</b>	<b>181,765</b>
<b>Cash And Cash Equivalents At End of Year</b>	<b>\$ 17,785</b>	<b>\$ 143,142</b>	<b>\$ 160,927</b>

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

<b>Excess (Deficiency) of Revenue Over Expenses</b>	<b>\$ (61,468)</b>	<b>\$ 42,850</b>	<b>\$ (18,618)</b>
<b>Adjustments To Reconcile Excess (Deficiency) of Revenue Over Expenses To Net Cash Provided By Operating Activities:</b>			
Depreciation And Amortization	679	-	679
Change In Assessments Receivable	(852)	-	(852)
Change In Prepaid Expenses	(375)	-	(375)
Change In Accounts Payable	(244)	-	(244)
Change In Prepaid Assessments	(428)	-	(428)
Change In Deferred Laundry Income	(1,000)	-	(1,000)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ (63,688)</b>	<b>\$ 42,850</b>	<b>\$ (20,838)</b>

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT AND ACCOMPANYING NOTES

CATHEDRAL VILLAS OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017

NOTE 1 NATURE OF ORGANIZATION

Cathedral Villas Owners Association was incorporated on October 24, 1984, in the state of California. It is responsible for the operation and maintenance of the common property within the development, which is located in Cathedral City, California. The development consists of 106 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Cathedral Villas Owners Association are maintained on the accrual basis of accounting with entries made for review 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 ACCOUNTANTS' REVIEW REPORT

CATHEDRAL VILLAS OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association is funding contributions to capital for the future replacement of selected Association common areas. The funds are held in separate savings accounts to be used for the replacement of common areas only and not in the course of normal operations.

California Civil Code Section 5550 requires that associations identify the estimated remaining life of assets the association is obligated to maintain and the methods of funding used to defray future repair and replacement costs.

Industry practice is to engage outside consultants with experience in construction and maintenance to study and report on the estimated remaining life of assets that the Association is obligated to maintain and the costs of their repair and replacement. These reports address the adequacy of reserves and their funding.

A study of the Association's funding program for the replacement of Association common areas, conducted as of December 31, 2014, indicated the Association's ideal cash replacement fund balance was \$ 485,290 at that date. The study indicated the replacement fund was approximately 38% ideally funded.

An independent study to determine the adequacy of the funding program for the replacement of Association common areas has not been conducted for the current year. 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. Accordingly, the current program and cash savings may not be sufficient to meet all future replacement costs. Therefore, when replacement funds are needed, 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 and certain issues are yet to be clarified. In 2017, the Association filed as an exempt association.

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 2014 through 2017 for federal purposes and 2013 through 2017 for state purposes.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

CATHEDRAL VILLAS OWNERS ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2017  
 (CONTINUED)

**NOTE 4 INCOME TAXES (Continued)**

Income taxes for the current year were:

2017 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ -	\$ -	\$ 10	\$ 10
Less: Estimated payments	-	-	-	-
<b>Income tax payable</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10</b>	<b>\$ 10</b>

**NOTE 5 CASH**

The Association's cash account balances as of December 31, 2017, were as follows:

INSTITUTION	INTEREST RATE	AMOUNT	MATURITY DATE
Pacific Western Bank	-	\$ 17,785	-
Pacific Western Bank	-	143,142	-
<b>Total</b>		<b>\$ 160,927</b>	

**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 2017, assessments were billed at a rate of \$ 200.00 per unit per month. Effective January 1, 2018, the rate increased to \$ 240.00 per unit per month.

**NOTE 9 RELATED PARTY TRANSACTIONS**

During 2017, the Association used a member of the Board of Directors as one of the on-site contractors. The Association paid this Board member \$ 6,358 during the year.

During 2017, the Association reimbursed the President of the Board of Directors \$ 4,854 for miscellaneous maintenance and administrative expenses.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

CATHEDRAL VILLAS OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(CONTINUED)

NOTE 10 LITIGATION

The Association is a defendant in a lawsuit brought by a potential tenant for alleged discrimination and is vigorously defending the case. It is not possible to predict the outcome of this matter, nor is it possible to estimate the amount or range of potential loss or gain to the Association as this time.

NOTE 11 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 3, 2018, which is the date on which the financial statements were issued.

SEE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

SUPPLEMENTAL INFORMATION

**OWENS, MOSKOWITZ AND ASSOCIATES, INC.**

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Cathedral Villas Owners Association

Our report on our review of the basic financial statements of Cathedral Villas Owners Association for December 31, 2017 appears on page 3. The objective of that review was to perform procedures to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. The supplementary information in the schedule of future repairs and replacements is the representation of management. It is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the supplementary information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the supplementary information and, accordingly, do not express an opinion on it.

Owens, Moskowitz and Associates, Inc.

April 3, 2018

*Owens, Moskowitz and Associates, Inc.*

CATHEDRAL VILLAS OWNERS ASSOCIATION  
 SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS  
 DECEMBER 31, 2017  
 (COMPILED)

**Please Note: A current year study has not been conducted.**

The board of directors conducted a November 20, 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 no inflation factor.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>	<u>2015 Funding Requirement</u>	<u>Recommended Fund Balances</u>
Painting	3 to 9 years	\$ 100,295		\$ 56,464
Roadway	0 years	133,386		133,386
Pool & Spa	0 to 5 years	32,626		24,541
Plumbing	0 to 5 years	73,592		60,029
Security Gates	1 to 11 years	18,296		12,909
Roofing	0 years	47,427		47,427
Water Heaters	0 to 7 years	55,194		47,261
Cooling Towers	0 to 9 years	198,291		93,979
Clubhouse	0 years	1,022		1,015
Miscellaneous	0 to 5 years	8,279		8,279
		<u>\$ 668,408</u>	<u>\$ 43,909</u>	<u>\$ 485,290</u>

As shown above, the study recommends a replacement fund balance of \$485,290 as of December 31, 2014 and contributions to reserves of \$43,909 during 2015. The Association's replacement fund balance at December 31, 2014 was \$184,702 or 38.06% of the recommended fund balance.