



THE GAFFNEY GROUP, INC.

CONTINUITY • STRENGTH • UNITY

April 27, 2018

Re: Sunrise Racquet Club Owners Association, Inc.

Dear Owner:

California Civil Code Section 5305 requires that a review of the Financial Statements of the Association be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the Association exceeds \$75,000.00. Civil Code further provides that a copy of these financial statements be distributed to the membership within 120 days after the close of each fiscal year.

Therefore, enclosed is a copy of the independent accountant's report and financial statements for Sunrise Racquet Club Owners Association, Inc., fiscal year ended December 31, 2017, as prepared by VanDerPol & Company, CPAs. This material has been reviewed and approved by the Board of Directors for mailing to all owners. Please retain this information with your Sunrise Racquet Club files.

Should you have any questions regarding this information, please do not hesitate to contact me.

Sincerely,

SUNRISE RACQUET CLUB OWNERS ASSOCIATION, INC.

Meaghan Gaffney-Howe, CCAM
Association Manager

Encl.

**SUNRISE RACQUET CLUB
OWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

SUNRISE RACQUET CLUB OWNERS ASSOCIATION

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VanDerPol and Company

A Professional Accountancy Corporation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Sunrise Racquet Club Owners Association

Report on the Financial Statements

We have audited the accompanying financial statements of Sunrise Racquet Club Owners Association, which comprise the balance sheet as of December 31, 2017 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 Sunrise Racquet Club Owners Association as of December 31, 2017, 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 Sunrise Racquet Club Owners Association's December 31, 2016 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated April 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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 13 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 AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

April 14, 2018

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents [Note 7]	\$ 69,245	\$ 462,343	\$ 531,588	\$ 480,590
Member assessments receivable, less allowance for doubtful collection of \$23,715 at 12/31/17 and 12/31/16	4,648	--	4,648	1,629
Investments [Note 8]	--	248,008	248,008	151,335
Accrued interest receivable	--	73	73	--
Loan fees, less accumulated amortization of \$409	--	5,899	5,899	6,308
Other receivable	1,260	--	1,260	1,037
Prepaid insurance	13,080	--	13,080	9,483
Prepaid expenses	4,389	--	4,389	4,312
Prepaid taxes	1,535	--	1,535	55
Total Assets	<u>\$ 94,157</u>	<u>\$ 716,323</u>	<u>\$ 810,480</u>	<u>\$ 654,749</u>
LIABILITIES				
Accounts payable	\$ 31,606	\$ 31,690	\$ 63,296	\$ 155,168
Prepaid assessments	19,453	--	19,453	13,057
Refundable deposit	--	--	--	400
Loan payable [Note 11]	--	1,083,891	1,083,891	478,201
Accrued interest payable	--	3,319	3,319	2,132
Total Liabilities	51,059	1,118,900	1,169,959	648,958
FUND BALANCES	<u>43,098</u>	<u>(402,577)</u>	<u>(359,479)</u>	<u>5,791</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 94,157</u>	<u>\$ 716,323</u>	<u>\$ 810,480</u>	<u>\$ 654,749</u>

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

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 672,512	\$ 400,000	\$1,072,512	\$ 1,072,512
Rental income	670	-	670	8,000
Interest	-	2,041	2,041	1,342
Other income	4,851	-	4,851	6,507
Total Revenues	<u>678,033</u>	<u>402,041</u>	<u>1,080,074</u>	<u>1,088,361</u>
EXPENSES				
Utilities:				
Electricity	41,156	-	41,156	39,650
Water	116,465	-	116,465	104,740
Gas	56,271	-	56,271	57,808
Refuse	19,498	-	19,498	18,916
Telephone	1,070	-	1,070	937
Cable	2,495	-	2,495	2,402
Maintenance:				
Landscape maintenance and supplies	238,485	-	238,485	184,141
Irrigation repairs	9,201	-	9,201	3,476
Tree maintenance	25,724	-	25,724	19,303
Lighting maintenance and supplies	7,324	-	7,324	3,989
Pool service, supplies and repairs	34,527	-	34,527	32,860
Pest control	7,756	-	7,756	8,782
Gate repairs	2,337	-	2,337	966
Lake maintenance and repairs	7,800	-	7,800	7,800
Roof repairs	17,819	-	17,819	16,942
Other common area maintenance	15,966	-	15,966	20,616
Replacement fund [Note 10]	-	648,821	648,821	856,478
Administrative:				
Insurance	52,787	-	52,787	54,162
Management fees	47,040	-	47,040	47,040
Professional fees	15,201	20,049	35,250	54,729
Income taxes [Note 4]	215	-	215	1,319
Postage and printing expense	4,815	-	4,815	4,835
Other administrative expenses	5,174	340	5,514	11,474
Interest expense	-	46,599	46,599	4,058
Amortization expense	-	409	409	-
Total Expenses	<u>729,126</u>	<u>716,218</u>	<u>1,445,344</u>	<u>1,557,423</u>
EXCESS OF EXPENSES OVER REVENUES	(51,093)	(314,177)	(365,270)	(469,062)
Beginning Fund Balances	<u>94,191</u>	<u>(88,400)</u>	<u>5,791</u>	<u>474,853</u>
Ending Fund Balances	<u>\$ 43,098</u>	<u>\$ (402,577)</u>	<u>\$ (359,479)</u>	<u>\$ 5,791</u>

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

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(WITH COMPARATIVE TOTALS FOR DECEMBER 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Cash flows from operating activities				
Excess of expenses over revenues:	\$ (51,093)	\$ (314,177)	\$ (365,270)	\$ (469,062)
Adjustments to reconcile excess of expenses over revenues to net cash provided/(used) by operating activities:				
Amortization expense	--	409	409	--
Increase in member assessments receivable	(3,019)	--	(3,019)	(910)
Increase in accrued interest receivable	--	(73)	(73)	--
(Increase)/decrease in other receivable	(223)	--	(223)	458
(Increase)/decrease in prepaid insurance	(3,597)	--	(3,597)	3,953
Increase in prepaid expenses	(77)	--	(77)	(77)
Increase in prepaid taxes	(1,480)	--	(1,480)	(55)
Increase/(decrease) in accounts payable	1,541	(93,413)	(91,872)	99,823
Increase/(decrease) in prepaid assessments	6,396	--	6,396	(4,768)
Decrease in income taxes payable	--	--	--	(426)
Increase in accrued interest payable	--	1,187	1,187	2,132
Decrease other liability	(400)	--	(400)	--
Net cash used by operating activities	(51,952)	(406,067)	(458,019)	(368,932)
Cash flows from investing activities				
Acquisition of certificates of deposit	--	(248,008)	(248,008)	(51,151)
Maturity of certificates of deposit	--	151,335	151,335	--
Net cash used by investing activities	--	(96,673)	(96,673)	(51,151)
Cash flows from financing activities				
Principal payments on loan payable	--	(58,492)	(58,492)	--
Principal draws on bank loan	--	664,182	664,182	471,893
Net cash provided by financing activities	--	605,690	605,690	471,893
Net increase/(decrease) in cash	(51,952)	102,950	50,998	51,810
Cash at beginning of year	121,197	359,393	480,590	428,780
Cash at end of year	\$ 69,245	\$ 462,343	\$ 531,588	\$ 480,590

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

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. ORGANIZATION

Sunrise Racquet Club Owners Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in June 1977. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 196 residential units and is located in Palm Springs, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Accounting - The books and records for the Association are maintained on the 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, 2017, 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 and investment 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 April 14, 2018, 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, 2016, from which the summarized information was derived.

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017, 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, 2017, the federal and California income tax expense was \$162 and \$53, respectively.

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, 2017 represent assessments and other fees due from owners and amounts due from prior owners in previous years. 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 December 31, 2017, the Association has recorded an allowance for uncollectible assessments of \$23,715. This allowance represents an estimated amount which was calculated using historical collection information.

For the year ended December 31, 2017, the Association's monthly assessment was \$456 per unit. For 2018, the monthly assessment is budgeted to remain at \$456 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.

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 6. REPLACEMENT FUNDING PROGRAM – (CONTINUED)

An independent study of the Association's replacement funding program was conducted in November 2017 and recommends a contribution to the replacement fund of approximately \$400,000 (\$170.07 per unit per month) for 2018 using the cash flow method. 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, 2017, the Association funded \$400,000 from assessments to the replacement fund. The 2018 budget includes a provision for replacement funding of \$371,400 (\$157.91 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, 2017 and 2016, the Association maintained cash balances at the following institutions:

<u>Operating Fund:</u>	<u>2017</u>	<u>2016</u>
Pacific Western Bank - checking	<u>\$ 69,245</u>	<u>\$ 121,197</u>
<u>Replacement Fund:</u>		
Bank of Southern California - money market	\$ 250,036	\$ --
Pacific Premier Bank - checking with interest	<u>212,307</u>	<u>359,393</u>
 Total Cash - Replacement Fund	 <u>\$ 462,343</u>	 <u>\$ 359,393</u>

NOTE 8. INVESTMENTS

The Association's investment consist of certificates of deposit with original maturities over 90 days. Investment income from these investment is recorded when earned or accrued. The investment is considered to be held to maturity and are carried at cost, which approximates the fair value.

At December 31, 2017 and 2016, the Association's investment is as follows:

<u>Replacement Fund:</u>	<u>2017</u>	<u>2016</u>
First Foundation Bank - 1.24%, 1/20/19	<u>\$ 248,008</u>	<u>\$ 151,335</u>

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes and interest on the loan payable amounted to \$1,600 and \$46,599, respectively for the year ended December 31, 2017. There were no non-cash investing or financing transactions during the year.

NOTE 10. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Landscape	\$ 177,303	\$ 523,890
Lighting repairs	151,611	140,294
Pavers	96,229	--
Gazebo	75,000	--
Roof and related repairs	55,694	33,652
Concrete work	29,115	20,175
Pool/spa repairs	17,328	63,119
Sports courts	17,200	437
Plumbing	8,797	246
Gate repairs	8,000	5,650
Common area	5,527	--
Wood repairs	2,975	2,250
Doors	2,050	3,132
Mailboxes	1,012	52,719
Lake repairs	980	2,943
Clubhouse	--	5,325
Pool area	--	1,331
Signs	--	865
Painting	--	450
Total	<u>\$ 648,821</u>	<u>\$ 856,478</u>

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11. LOAN PAYABLE

In May 2016, the Association was approved for a bank loan of up to \$1,250,000 from Mutual of Omaha Bank in order to help fund extensive landscape work, new electrical wiring and LED lighting, irrigation, replacement of stamped concrete with pavers, gazebo repairs, mailboxes, AC screens, and other related costs with the Association. In May 2017, the loan converted to a fully amortizable loan where the Association is making monthly principal and interest payments of \$13,339.16. As of December 31, 2017, the effective interest rate on the loan was 5.25%. The loan, which has a maturity date of May 25, 2026, is collateralized against the Association's right to levy and collect assessments. Additionally, loan fees of \$6,308 are being capitalized over the life of the loan. Future principal obligations on the bank loan are as follows:

Fiscal year ending 12/31/18:	\$	110,660
Fiscal year ending 12/31/19:		111,636
Fiscal year ending 12/31/20:		117,640
Fiscal year ending 12/31/21:		123,967
Fiscal year ending 12/31/22:		130,634
And thereafter		489,354
 Total principal obligations:		 \$ 1,083,891

NOTE 12. LEGAL

On January 6, 2018, a member of the Association filed a complaint against the Association for breach of contract and declaratory relief. As this matter is pending, the outcome cannot be determined as this time.

SUNRISE RACQUET CLUB OWNERS ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF DECEMBER 31, 2017
 (UNAUDITED)

An independent reserve study was conducted in November 2017 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 3.0%. 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% (net of taxes).

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>2018 Recommended Funding Requirement</u>	<u>Study's Recommended Fund Balance</u>
Access system	1-15 years	\$ 31,600	\$ 5,676	\$ 19,580
Asphalt/concrete	0-39 years	699,906	87,420	291,929
Doors	0 years	1,000	589	1,000
Roofs	0-23 years	368,500	89,400	255,834
Clubhouse	19-23 years	24,500	1,584	5,160
Lighting	33 years	348,035	7,698	19,888
Fences/gates	12-14 years	71,320	10,938	40,013
Lakes	1-25 years	103,400	8,285	25,105
Landscape	0 years	30,000	11,470	30,000
Mailboxes	19 years	30,380	784	1,519
Painting	1 year	222,035	57,293	191,544
Pools/spas	0-18 years	308,619	52,710	163,675
Pool furniture	0-13 years	32,591	5,593	15,893
Tennis courts	0-7 years	37,710	7,334	21,210
Bank loan payment	N/A years	--	53,226	--
Total		<u>\$ 2,309,596</u>	<u>\$ 400,000</u>	<u>\$ 1,082,350</u>
Replacement Fund balance at 12/31/17:				<u>\$ (402,577) *</u>
Actual Replacement Fund cash at 12/31/17:				<u>\$ 710,351</u>

* Negative balance due to presence of the bank loan