

HAMILTON COVE HOMEOWNERS ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2021

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OWENS, MOSKOWITZ AND ASSOCIATES, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hamilton Cove Homeowners Association

Opinion

We have audited the accompanying financial statements of Hamilton Cove Homeowners Association (a California corporation), which comprise the balance sheet as of December 31, 2021, and the related statements of revenue, expenses and association funds, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton Cove Homeowners Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hamilton Cove Homeowners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hamilton Cove Homeowners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hamilton Cove Homeowners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hamilton Cove Homeowners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis-of- Matter Regarding Supplemental Information

Per California Civil Code requirements, the Association has conducted a study to estimate the remaining lives and replacement costs of the common property within the past three years. The 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 has used the most current study dated October 12, 2020. The projections of this study have not been updated and may no longer be valid.

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on page 16 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, which 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.

Owens, Moskowitz and Associates, Inc.

March 1, 2022

Owens, Moskowitz and Associates, Inc.

HAMILTON COVE HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2021

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
ASSETS				
Cash	\$ 52,912	\$ 1,092,515	\$ -	\$ 1,145,427
Assessments receivable	23,668	-	1,679	25,347
PPP loan repay receivable	49,973	-	-	49,973
Prepaid expenses	3,500	-	-	3,500
Prepaid insurance	129,483	-	-	129,483
Prepaid taxes	1,193	-	-	1,193
A/R - massage	170	-	-	170
Land	-	-	90,577	90,577
Fixed assets	228,930	-	-	228,930
Accumulated depreciation	(228,930)	-	-	(228,930)
Due from/(due to) other funds	(198,849)	216,640	(17,791)	-
Total Assets	<u>\$ 62,050</u>	<u>\$ 1,309,155</u>	<u>\$ 74,465</u>	<u>\$ 1,445,670</u>
LIABILITIES AND ASSOCIATION FUNDS				
Liabilities				
Note payable	\$ -	\$ -	\$ 74,325	\$ 74,325
Accounts payable	36,450	-	-	36,450
Prepaid assessments	27,707	-	-	27,707
PPP loan	203,433	-	-	203,433
Deferred assessments (Assessments received in advance - replacement fund)	-	1,309,155	-	1,309,155
Master land liability	13,617	-	-	13,617
Accrued interest payable	-	-	140	140
Total Liabilities	<u>281,207</u>	<u>1,309,155</u>	<u>74,465</u>	<u>1,664,827</u>
Commitments	-	-	-	-
Association funds (deficit)	<u>(219,157)</u>	<u>-</u>	<u>-</u>	<u>(219,157)</u>
Total Liabilities & Association Funds	<u>\$ 62,050</u>	<u>\$ 1,309,155</u>	<u>\$ 74,465</u>	<u>\$ 1,445,670</u>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUE EXPENSES AND ASSOCIATION FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
REVENUE				
Assessments	\$ 2,044,705	\$ 121,791	\$ -	\$ 2,166,496
Preferred mooring fees	27,400	-	-	27,400
Interest income	36	1,073	-	1,109
Cell tower income	18,677	-	-	18,677
Sublease rent	-	-	9,531	9,531
Other income	44,787	-	-	44,787
Total Revenue	2,135,605	122,864	9,531	2,268,000
EXPENSES				
Accounting	7,775	-	-	7,775
Property taxes	11,025	-	-	11,025
Administrative	11,920	-	-	11,920
Legal and audit	28,399	-	-	28,399
Insurance	901,208	-	-	901,208
Pool	15,846	-	-	15,846
Landscape maintenance	14,102	-	-	14,102
Pest control	10,813	-	-	10,813
Custodial	19,098	-	-	19,098
Mooring fees/maintenance	101,056	-	-	101,056
General maintenance	38,811	688	-	39,499
Interest expense	-	-	9,531	9,531
Depreciation	236	-	-	236
Telephone	65,332	-	-	65,332
Electricity	76,513	-	-	76,513
Water	158,587	-	-	158,587
Rubbish collection	18,769	-	-	18,769
Automotive	13,078	-	-	13,078
Building repairs	19,549	-	-	19,549
Plumbing	9,944	-	-	9,944
Uniforms	3,480	-	-	3,480
Salaries and related expenses	761,493	-	-	761,493
Elevator	8,134	-	-	8,134
Fire system	23,697	30,207	-	53,904
Pier and dock	27,763	17,566	-	45,329
Infrastructure	-	1,563	-	1,563
Laundry equipment	-	1,162	-	1,162
Salt water	-	14,023	-	14,023
Road	-	57,655	-	57,655
Income tax	2,987	-	-	2,987
Total Expenses	2,349,615	122,864	9,531	2,482,010
Excess (deficiency) of revenue over expenses	(214,010)	-	-	(214,010)
Association funds balance (deficit) beginning of year	(5,147)	-	-	(5,147)
Association funds balance (deficit) end of year	\$ (219,157)	\$ -	\$ -	\$ (219,157)

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
Cash flows from operating activities:				
Cash received from members	\$ 2,136,845	\$ 166,667	\$ 9,280	\$ 2,312,792
PPP loan payment to be refunded	(49,973)	-	-	(49,973)
Cash paid to suppliers of goods and services	(2,389,531)	(122,864)	-	(2,512,395)
Interest received	36	1,073	-	1,109
Interest paid	-	-	(10,819)	(10,819)
Income taxes paid	(4,708)	-	-	(4,708)
Net cash provided by (used in) operating activities	(307,331)	44,876	(1,539)	(263,994)
Cash flows from investing activities:				
Sale of land interest	-	-	178,880	178,880
Cash flows from financing activities:				
Interfund borrowings	198,849	(216,640)	17,791	-
Principal payments on debt	-	-	(195,132)	(195,132)
Net cash provided by (used in) financing activities	198,849	(216,640)	(177,341)	(195,132)
Net increase (decrease) in cash and cash equivalents	(108,482)	(171,764)	-	(280,246)
Cash and cash equivalents at beginning of year	161,394	1,264,279	-	1,425,673
Cash and cash equivalents at end of year	\$ 52,912	\$ 1,092,515	\$ -	\$ 1,145,427

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

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

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
Excess (deficiency) of revenue over expenses	\$ (214,010)	\$ -	\$ -	\$ (214,010)
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:				
Depreciation	236	-	-	236
Change in assessments receivable	12,088	-	(251)	11,837
Change in prepaid insurance	(20,272)	-	-	(20,272)
Change in prepaid expenses	(3,500)	-	-	(3,500)
Change in A/R - massage	(170)	-	-	(170)
Change in prepaid taxes	(1,193)	-	-	(1,193)
Change in PPP loan A/R	(49,973)	-	-	(49,973)
Change in accounts payable	(19,197)	-	-	(19,197)
Change in contract liabilities	-	44,876	-	44,876
Change in accrued interest	-	-	(1,288)	(1,288)
Change in prepaid assessments	(10,812)	-	-	(10,812)
Change in income tax payable	(528)	-	-	(528)
Net cash provided by (used in) operating activities	\$ (307,331)	\$ 44,876	\$ (1,539)	\$ (263,994)

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 NATURE OF ORGANIZATION

Hamilton Cove Homeowners Association was incorporated on March 9, 1982, in the state of California. It is responsible for the operation and maintenance of the common property within the development, which is located Catalina Island, California. The development consists of 185 residential units. Three single family residences located on adjacent land have been annexed into the Association. The Association does not have any responsibility for the structures.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Hamilton Cove Homeowners Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit 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.
- Land purchase fund - This fund is used to account for the purchase of land upon which the Association is located. (Note 9)

Deferred Assessments (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred assessments (assessments received in advance-replacement fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The activity in deferred assessments (assessments received in advance-replacement fund) during 2021 was as follows:

Deferred assessments, at January 1, 2021	\$ 1,264,279
Assessments Budgeted for Replacement Reserve	166,667
Revenue Released to Match Reserve Expenses	<u>(121,791)</u>
Deferred assessments, at December 31, 2021	<u>\$ 1,309,155</u>

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.

The Association maintains bank accounts at various financial institutions. During the course of the year, the accounts may fluctuate over the FDIC insured amount.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(CONTINUED)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fixed assets purchased by the Association are capitalized at cost and depreciated over useful lives of five to seven years using the straight-line method and declining balance methods of depreciation.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2021, the Association had delinquent assessments of \$23,668. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year were \$36,596 and \$23,668.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This guidance represents a significant change in the accounting model for credit losses by requiring immediate recognition of management's estimates of "current expected credit losses". Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The new model is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. Although this change affects any entity holding financial instruments (ie: trade receivables or investments in debt securities) the financial services industry by its nature bears the most exposure. The effect of adoption of this standard will be to accelerate the recognition of credit losses. The effective date of this standard is for years beginning after December 15, 2023, with early adoption allowed. We do not plan an early adoption of this standard.

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 AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(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, 2020, indicated the Association's ideal cash replacement fund balance was \$ 2,185,091 at that date. The study indicated the replacement fund was approximately 60% 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 2021, the Association filed as a regular corporation for federal taxes, since it had an excess of maintenance expenses over membership source income. That excess may be carried over to future periods to offset future membership source income when the Association files as a regular corporation. This election is not related to the issues involved in the recent IRS audits.

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.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (CONTINUED)

NOTE 4 INCOME TAXES (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2017.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were:

2021 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 1,774	\$ 1,213	\$ -	\$ 2,987
Less: Credit from prior year return	(2,664)	(1,104)	-	(3,768)
Less: Estimated payments	-	(412)	-	(412)
Prepaid tax	\$ 890	\$ 303	\$ -	\$ 1,193

NOTE 5 ASSESSMENTS

For the first six months of 2021, assessments were billed at a rate of \$ 885 per unit per month. Effective July 1, 2021, the rate increased to \$ 990 per unit per month. The rate is budgeted to remain at \$ 990 per unit per month for 2021.

NOTE 6 RELATED PARTY TRANSACTIONS

The Association has entered into a legal services agreement with a law firm of which the Board President is the managing partner. During 2021, the law firm was paid \$17,096 in costs and fees for work in connection with unit transfers, refinancing, and other general legal services.

NOTE 7 INTERFUND ACCOUNT

The interfund account represents the amount one fund owes another fund. Various scenarios may cause this situation which include, but are not limited to, one fund paying the expenses of another fund, one fund borrowing from another fund, or the operating fund not paying the full annual budgeted contribution amount to the replacement fund.

NOTE 8 SBA PPP LOAN

During 2020, the Association received a loan in the amount of \$203,433 under the U.S. Small Business Association Paycheck Protection Program. Before the Association filed an application for forgiveness, \$49,973 in payments on the PPP loan were required. These payments have been recorded as a receivable since a refund is expected upon the SBA's final review of the forgiveness application. The PPP loan is currently in a deferment and no payment is due.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2021
 (CONTINUED)

NOTE 9 LAND PURCHASE

In January 2010, the Association acquired the land on which the existing buildings are located, including the beach area, and all of the improvements including all of the buildings, subject to 185 individual subleases, for \$8,325,000 plus costs and fees of \$256,569. Subsequently, the Association immediately transferred undivided fractional fee interests in the land and the improvements and fee title to their condominiums to 119 owners who exercised the option to purchase in full. In the process, the subleases of those 119 owners were cancelled. Sixty-six owners remained sub-lessees of the Association.

The Association obtained a loan, in the amount of \$3,215,000, to finance the purchase. The remaining sub-lessee owners participate in the Master Land Loan (MLL), which has the following terms: 15 year note; monthly payments consisting of principal and interest; annual interest rate of 6.25%, adjustable every five years; final payment of all unpaid principal and interest will become due on January 20, 2025; collateral on the loan is the title to the land and improvements. Sub-lessee owners pay \$419.67 per month in lieu of the rent called for by their subleases. Upon payment in full of his/her pro-rata share, the Association transfers an undivided fractional fee interest in the land and improvements and fee title to their condominiums. As of December 31, 2021, there were still 8 owners under the MLL. During 2021, monthly principal and interest payments on the MLL were \$6,145.57. Since the monthly payments were not adjusted to reflect 8 payoffs during the year, the land purchase fund owes the operating fund \$17,791 for the loan payments not funded by sublease rent.

As of December 31, 2021, the loan balance was \$74,325. Based on a monthly payment of \$2,216.73 and an interest rate of 6.25%, the principal maturities through the maturity date are as follows:

<u>Year</u>	<u>Amount</u>
2022	22,596
2023	24,050
2024	25,592
2025	<u>2,086</u>
	<u>74,324</u>

NOTE 10 MASTER LAND LIABILITY

Upon the purchase of the land in 2010, the sixty-six sub-lessees each paid the Association \$851.08, which approximated two months of operating expenses. Upon payment of full of his/her share in the Master Land Loan, the \$851.08 is refunded to the owner. As of December 31, 2021, the master land liability was \$13,617; subsequent to year end, \$6,808.64 was refunded to the eight owners that paid off their shares of the loan during 2021.

NOTE 11 CONTINGENCY

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. It is at least reasonably possible that this matter will negatively impact the Association. However, the financial impact and duration cannot be reasonably estimated at this time.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(CONTINUED)

NOTE 12 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2020, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 1, 2022, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

HAMILTON COVE HOMEOWNERS ASSOCIATION
 SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS
 DECEMBER 31, 2021
 (UNAUDITED)

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

The board of directors contracted an independent consultant who conducted a October 12, 2020 study, projected to December 31, 2020, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 2.25% and an interest rate of 1.50%.

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

Components	Estimated Remaining Useful Lives	Estimated Current Replacement Cost	2021 Funding Requirement	Recommended Fund Balances
Streets	1 year	\$ 417,893	\$ 16,599	\$ 403,242
Roofs	1 year	32,761	1,440	41,387
Painting	2 years	76,384	23,260	38,192
Fencing	2 to 4 years	140,179	26,706	127,799
Beach Area	2 to 20 years	496,590	56,014	255,447
Clubhouse	0 to 40 years	299,459	43,158	230,529
Pool/Spa	1 to 5 years	110,836	13,915	96,231
Tennis Courts	3 years	10,650	2,175	5,325
Building 10	4 years	12,210	1,881	10,890
Decks	2 years	66,000	20,098	66,000
Equipment	0 to 28 years	281,830	18,823	127,188
Irrigation/Motors	0 to 19 years	287,350	20,659	188,792
Grounds	0 years	55,420	5,950	55,420
Termite Control	0 to 5 years	493,264	35,703	434,597
Contingency	n/a	-	14,636	104,052
		<u>\$ 2,780,826</u>	<u>\$ 301,017</u>	<u>\$ 2,185,091</u>

As shown above, the study recommended a replacement fund balance of \$2,185,091 as of December 31, 2021 and contributions to reserves of \$301,017 during 2021. The Association's replacement fund balance at December 31, 2020 was \$1,309,155 or 59.91% of the recommended fund balance.