

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

CERTIFIED PUBLIC ACCOUNTANTS

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CALIFORNIA SOCIETY  
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April 7, 2023

Board of Directors  
Hamilton Cove Homeowners Association  
c/o Norris Bishton - President  
6701 Center Drive West, Suite 925  
Los Angeles, California 90045

We have audited the financial statements of Hamilton Cove Homeowners Association for the year ended December 31, 2022, and have issued our report thereon dated April 6, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

The Board of Directors is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hamilton Cove Homeowners Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the CIRA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

The Board of Directors' estimate of the dues level and the reserve funding program is based on an outside experts reserve study. We evaluated the key factors and assumptions used to develop the reserve funding level in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the replacement funding program and the reserve study in Note 3 to the financial statements.

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of

management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

We have requested certain representations from management that are included in the management representation letter dated April 6, 2023.

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the CIRA's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### FDIC INSURANCE LIMIT

The Association maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year the account balance at a particular bank exceeded the insurance limit and placed the Association at an unnecessary risk of loss.

#### REPLACEMENT FUND (RESERVES)

The Association has not conducted a current year study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. We recommend that such a study be performed each year to ensure that the study is relevant.

#### FUND DEFICIT

the replacement fund was under-funded by approximately \$921,000 as of December 31, 2020 based upon the most recent reserve study. Higher dues levels are indicated.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CIRA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Hamilton Cove Homeowners Association and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert A. Owens". The signature is written in a cursive style with a large, prominent "R" and "O".

Robert A. Owens

## GENERAL INFORMATION

We have prepared this summary of standard management practices and legal requirements which are applicable to most homeowners associations. Please review this letter to see if you are following recommended financial management practices and meeting legal requirements.

**Cash:** Investment funds should be held in insured or government backed accounts. Bank accounts in excess of \$250,000 are generally not insured. The Board has fiduciary responsibility for Association funds. Board members should sign all checks. If the Board holds savings accounts, copies should be provided to the management company regularly to properly record accounting entries. Unnecessary accounts and excessive transfers should be avoided.

**Assessments Receivable:** Delinquent assessments should be monitored regularly by the Board. Even with lien rights, Associations often have bad debts due to foreclosures.

**Minutes:** Board of Directors meetings should be held regularly and proper minutes should be kept of all meetings. These minutes should indicate that the Board approved significant financial information, such as: opening and closing of bank accounts, changes to bank signature cards, approval of inter-fund transfers, approval of capital and/or reserve expenditures, discussions with the Association's insurance agent about the adequacy of insurance coverage, dealings with attorneys, budget approval, dues increases, Board elections and resignations, related party transactions, collection and litigation matters, approval or dismissal of the management company, and contracts approved.

**Replacement Funds:** California Civil Code Section 5550 requires a physical inspection every three years for most Associations. An update and disclosure of current replacement funds is still required every year by CC5520 and CC5500. An independent replacement fund study (reserve study) by professionals is recommended in order to discharge the fiduciary responsibility of the Board.

Transfers should be made to separate replacement fund bank accounts monthly in accordance with the annual budget. These funds should be maintained in interest bearing accounts and by law, should require two officers' signatures for withdrawal. Transfers allocated by the budget but not made are treated as funds borrowed from the replacement fund. Any borrowing from reserve funds must be documented in the minutes and repaid to the replacement fund account within one year.

**Tax Returns:** It appears the IRS will require strict adherence to the rules for determining excess assessments, unless filing 1120H. To enable a choice of tax filing, reserve funds must remain segregated, monthly allocated transfers must be made, and the 70-604 tax resolution should be passed by a vote of the members at every Annual Meeting.

**Laws and Regulations:** Be sure that you comply with the provisions of California Civil Code Sections: 5300 – Financial Statements; 5500 – Operating and reserve accounts; 5805 – Insurance Coverage; 5600 – Levy of Assessments; 4525 – Documents to be provided to new homeowners.