

HAMILTON COVE HOMEOWNERS ASSOCIATION

Audited Financial Statements

For The Year Ended December 31, 2023

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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, 2023, 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, 2023, 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.

Future Major Repairs and Replacement

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacement as discussed in Note 3 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

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.

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 14 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.

April 2, 2024

Owens, Moskowitz and Associates, Inc.

HAMILTON COVE HOMEOWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2023

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
ASSETS				
Cash	\$ 73,110	\$ 1,227,615	\$ -	\$ 1,300,725
Assessments receivable	63,834	-	1,877	65,711
Less: allowance for doubtful accounts	(25,441)	-	-	(25,441)
Special assessment receivable	44,225	-	-	44,225
Prepaid expenses	3,500	-	-	3,500
Prepaid insurance	288,075	-	-	288,075
Prepaid taxes	681	-	-	681
Fixed assets	228,930	-	-	228,930
Accumulated depreciation	(228,930)	-	-	(228,930)
Land	-	-	21,019	21,019
Due from/(due to) other funds	(82,621)	78,500	4,121	-
Total Assets	<u>\$ 365,363</u>	<u>\$ 1,306,115</u>	<u>\$ 27,017</u>	<u>\$ 1,698,495</u>
LIABILITIES AND ASSOCIATION FUNDS				
Liabilities				
Note payable	\$ -	\$ -	\$ 21,019	\$ 21,019
Accounts payable	33,154	-	-	33,154
Prepaid assessments	36,815	-	-	36,815
Interest payable	-	-	40	40
Deferred assessments (Assessments received in advance - replacement fund)	-	1,306,115	-	1,306,115
Master land liability	-	-	5,958	5,958
Total Liabilities	<u>69,969</u>	<u>1,306,115</u>	<u>27,017</u>	<u>1,403,101</u>
Commitments	-	-	-	-
Association funds	<u>295,394</u>	<u>-</u>	<u>-</u>	<u>295,394</u>
Total Liabilities & Association Funds	<u>\$ 365,363</u>	<u>\$ 1,306,115</u>	<u>\$ 27,017</u>	<u>\$ 1,698,495</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, 2023

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
REVENUE				
Assessments	\$ 2,918,280	\$ 120,526	\$ -	\$ 3,038,806
Price adjustment - bad debt	(25,441)	-	-	(25,441)
Special assessment - insurance	633,975	-	-	633,975
Earthquake insurance assessment	104,710	-	-	104,710
Interest income	41	2,261	-	2,302
Preferred mooring fees	41,100	-	-	41,100
Sublease rent	-	-	3,329	3,329
Cell tower income	19,815	-	-	19,815
Other income	56,602	-	-	56,602
Total Revenue	3,749,082	122,787	3,329	3,875,198
EXPENSES				
Accounting	9,900	-	-	9,900
Property taxes	12,051	-	-	12,051
Administrative	40,460	-	1,520	41,980
Legal and audit	133,194	-	-	133,194
Insurance	1,762,980	-	-	1,762,980
Salaries and related expenses	957,105	-	-	957,105
Pool	20,958	19,641	-	40,599
Rubbish collection	16,802	-	-	16,802
Pest control	8,108	-	-	8,108
Landscape maintenance	31,380	-	-	31,380
General maintenance	73,666	4,736	-	78,402
Reserve study	3,000	-	-	3,000
Interest expense	-	-	1,809	1,809
Electricity	99,408	-	-	99,408
Water	170,799	-	-	170,799
Telephone	96,411	-	-	96,411
Custodial	13,155	-	-	13,155
Automotive	13,298	-	-	13,298
Plumbing	11,273	-	-	11,273
Building repairs	5,587	-	-	5,587
Elevator	9,321	3,626	-	12,947
Mooring fees/maintenance	114,627	-	-	114,627
Fire system	39,174	14,943	-	54,117
Pier and dock	30,233	-	-	30,233
Golf course	-	11,826	-	11,826
Salt water	-	13,610	-	13,610
Sewage pumps/lift station	-	54,405	-	54,405
Income tax	2,722	-	-	2,722
Total Expenses	3,675,612	122,787	3,329	3,801,728
Excess of revenue over expenses	73,470	-	-	73,470
Association funds balance beginning of year	221,924	-	-	221,924
Association funds balance end of year	\$ 295,394	\$ -	\$ -	\$ 295,394

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	OPERATING FUND	REPLACEMENT FUND	LAND PURCHASE FUND	TOTAL
Cash flows from operating activities:				
Cash received from members	\$ 2,788,916	\$ 150,000	\$ 2,710	\$ 2,941,626
Cash paid to suppliers of goods and services	(2,769,744)	(128,858)	(1,520)	(2,900,122)
Interest received	41	2,261	-	2,302
Interest paid	-	-	(1,843)	(1,843)
Income taxes paid	(3,739)	-	-	(3,739)
Net cash provided by (used in) operating activities	15,474	23,403	(653)	38,224
Cash flows from investing activities:				
Sale of land interest	-	-	24,510	24,510
Cash flows from financing activities:				
Interfund borrowings	18,689	(13,000)	(5,689)	-
Principal payments on debt	-	-	(18,168)	(18,168)
Net cash provided by (used in) financing activities	18,689	(13,000)	(23,857)	(18,168)
Net increase in cash and cash equivalents	34,163	10,403	-	44,566
Cash and cash equivalents at beginning of year	38,947	1,217,212	-	1,256,159
Cash and cash equivalents at end of year	\$ 73,110	\$ 1,227,615	\$ -	\$ 1,300,725

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

Excess of revenue over expenses	\$ 73,470	\$ -	\$ -	\$ 73,470
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities:				
Change in assessments receivable	(862)	-	(619)	(1,481)
Change in prepaid insurance	(49,881)	-	-	(49,881)
Change in special A/R	(11,473)	-	-	(11,473)
Change in prepaid taxes	(681)	-	-	(681)
Change in accounts payable	7,395	(6,071)	-	1,324
Change in deferred assessments	-	29,474	-	29,474
Change in prepaid assessments	(2,158)	-	-	(2,158)
Change in interest payable	-	-	(34)	(34)
Change in income tax payable	(336)	-	-	(336)
Net cash provided by (used in) operating activities	\$ 15,474	\$ 23,403	\$ (653)	\$ 38,224

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

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. Six 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 2023 was as follows:

Deferred assessments, at January 1, 2023	\$ 1,276,641
Assessments Allocated to Replacement Reserve	150,000
Revenue Released to Match Reserve Expenses	<u>(120,526)</u>
Deferred assessments, at December 31, 2023	\$ <u>1,306,115</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
DECEMBER 31, 2023
(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 ninety days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The balances of assessments receivable as of the beginning and end of the year were \$38,789 and \$65,711, respectively.

Credit Losses Implementation

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. The Association adopted this standard on January 1, 2023 by using a "Loss rate approach – Individual Evaluation". An allowance for expected credit losses is established for any account that is six months or older which has historically been reliable. The cumulative effect of adopting this new accounting policy resulted in no change to the beginning of the year allowance for expected credit losses or the operating fund balance.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses of assessments receivables held at December 31, 2023 because the composition of the member receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e. the similar risk characteristics of its members and its lending practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at December 31, 2023 totaled \$25,441.

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
DECEMBER 31, 2023
(CONTINUED)

NOTE 3 REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, conducted as of December 31, 2023, indicates the Association's ideal cash replacement fund balance was \$ 2,575,165 at that date. The study recommends a 2024 contribution to the replacement fund of \$ 371,948 (\$ 167.54 per owner per month). The 2024 budgeted contribution is \$ 350,000.

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. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, 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 2023, 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.

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, 2023, 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 2019.

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(CONTINUED)

NOTE 4 INCOME TAXES (Continued)

Income taxes for the current year were:

2023 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 1,755	\$ 967	\$ -	\$ 2,722
Less: Credit from prior year return	(519)	(1,395)	-	(1,914)
Less: Estimated payments	(1,489)	-	-	(1,489)
Prepaid tax	\$ 253	\$ 428	\$ -	\$ 681

NOTE 5 ASSESSMENTS

During 2023, assessments were billed at a rate of \$ 1,350 per Class I owner per month and \$990 per Class III owner per month. Effective March 1, 2024, the rates increased to \$ 1,620 per Class I owner per month and \$1,090 per Class III owner per month.

In 2023, an earthquake insurance assessment of \$566 per Class I owner was billed. The earthquake policy expired in February 2024 and will be renewed. As such, an earthquake insurance assessment may become necessary.

NOTE 6 EMERGENCY SPECIAL ASSESSMENT

Upon renewal of the Association's insurance policies in March 2023, the number of carriers willing to provide the \$82,000,000 in coverage needed according to the Association's CC&R's had greatly reduced. As a result, the annual premium for fire, auto, general liability, umbrella liability, and D&O increased to \$1,615,065.

In accordance with Civil Code Section 5610, the Association's Board of Directors declared an emergency special assessment of \$633,975 to cover the above extraordinary expense necessary to maintain the Association that could not have been reasonably foreseen by the Board in preparing and distributing the annual budget report under Section 5300. Class I owners had the option of paying a lump-sum of \$3,325 by April 30, 2023 or making 9 monthly payments of \$390, beginning April 1, 2023. Class III owners had the option of paying a lump-sum of \$1,235 by April 30, 2023 or making 9 monthly payments of \$145, beginning April 1, 2023.

NOTE 7 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 2023, the law firm was paid \$125,346 in costs and fees for work in connection with unit transfers, refinancing, general legal services and litigation services.

NOTE 8 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.

SEE INDEPENDENT AUDITORS' REPORT

HAMILTON COVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(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, 2023, there were still 7 owners under the MLL. During 2023, monthly principal and interest payments on the MLL were \$1,677.42.

As of December 31, 2023, the loan balance was \$21,019. Based on a monthly payment of \$1,677.42 and an interest rate of 6.25%, the principal maturities through the maturity date are as follows:

<u>Year</u>	<u>Amount</u>
2024	19,361
2025	<u>1,658</u>
	<u>21,019</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 in full of his/her share in the Master Land Loan, the \$851.08 is refunded to the owner. As of December 31, 2023, the master land liability was \$5,958.

NOTE 11 LITIGATION

During 2023, owners of two units filed a lawsuit against the Association disputing the Architectural Committee's denial of their request to join their units together. After a trial in November 2023, the Superior Court of the State of California for the County of Los Angeles ruled in favor of the Association on causes of action for Violation of Breach of CC&R's, Violation of Civil Code 4675(a)(1)-(3), Violation of the Covenant of Good Faith and Fair Dealing, Breach of Fiduciary Duty, Negligence, Declaratory Relief, and Injunctive Relief. One exception of the Judgement declared that the Plaintiffs' request to install an interior elevator is entitled to preliminary approval by the Architectural Committee and may proceed to the second step of the Architectural Committee's review process.

NOTE 12 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2023, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is April 2, 2024, 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, 2023
(UNAUDITED)

The board of directors contracted an independent consultant who conducted a August 8, 2023 study, projected to December 31, 2023, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 2.5% and an interest rate of 1.5%.

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>2024 Funding Requirement</u>	<u>Recommended Fund Balances</u>
Streets	2 to 6 years	\$ 463,168	\$ 46,265	\$ 369,805
Roofs	1 year	36,094	1,375	44,754
Painting	0 years	95,480	13,189	95,480
Fencing	1 to 3 years	158,145	28,777	146,421
Beach Area	0 to 17 years	565,050	56,689	318,992
Clubhouse	6 to 30 years	337,643	20,544	295,346
Pool/Spa	7 to 30 years	151,010	6,396	103,014
Tennis Courts	0 years	11,715	1,094	11,715
Surveillance System	10 years	35,000	2,016	5,833
Building 10	1 year	13,459	409	13,095
Decks	0 years	72,600	19,776	72,600
Equipment	0 to 25 years	379,850	21,266	190,942
Irrigation/Motors	0 to 16 years	312,980	27,874	234,086
Grounds	0 years	63,500	5,948	63,500
Termite Control	3 years	560,000	102,413	486,955
Contingency	n/a	-	17,917	122,627
		<u>\$ 3,255,694</u>	<u>\$ 371,948</u>	<u>\$ 2,575,165</u>

As shown above, the study recommends a replacement fund balance of \$2,575,165 as of December 31, 2023 and contributions to reserves of \$371,948 during 2023/2024. The Association's replacement fund balance at December 31, 2023 was \$1,227,615 or 47.67% of the recommended fund balance.

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION