



Certified Public Accountants

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Board of Directors
Seabridge Village Homeowners Association

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of Seabridge Village Homeowners Association as of December 31, 2010, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seabridge Village Homeowners Association as of December 31, 2010, 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.

As discussed in Note 4 to the financial statements, the Board of Directors has elected to fund only a portion of the amount recommended by a study conducted to determine current estimates of major repairs and replacements that may be required in the future. Because actual expenditures may vary from estimated future expenditures, it is not presently determinable whether amounts accumulated in the replacement fund will be adequate to meet all future needs for major repairs and replacements.

Board of Directors
Seabridge Village Homeowners Association

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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 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 any other form of assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or any other form of assurance.

Inouye, Shively & Longtin

Inouye, Shively & Longtin

Laguna Hills, California
April 19, 2011

**SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2010**

	Operating Fund	Replacement Fund	Loan and Settlement Fund	Total
Assets				
Cash and cash equivalents	\$ 127,741	\$ 419,027	\$ 6,731	\$ 553,499
Assessments receivable	266,916	-	-	266,916
Allowance for doubtful accounts	(150,000)	-	-	(150,000)
Prepaid expenses	24,672	-	-	24,672
Interfund account	(221,266)	221,266	-	-
Total assets	48,063	640,293	6,731	695,087
Liabilities				
Accounts payable	76,916	-	-	76,916
Note payable	-	-	3,373,534	3,373,534
Prepaid assessments	51,217	-	-	51,217
Income taxes payable	87	-	-	87
	128,220	-	3,373,534	3,501,754
Commitments and contingencies	-	-	-	-
Fund balances (deficit)	(80,157)	640,293	(3,366,803)	(2,806,667)
Total liabilities and fund balances	\$ 48,063	\$ 640,293	\$ 6,731	\$ 695,087

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Operating Fund	Replacement Fund	Loan and Settlement Fund	Total
Revenues				
Member assessments	\$ 1,890,689	\$ 431,604	\$ -	\$ 2,322,293
Clubhouse rental	675	-	-	675
Newsletter income	3,130	-	-	3,130
Interest income	569	-	-	569
Advertising income	405	-	-	405
Other income	23,809	-	-	23,809
Total revenues	1,919,277	431,604	-	2,350,881
Expenses				
Security	1,440	-	-	1,440
Landscape services	217,055	-	-	217,055
Pool maintenance	38,084	-	-	38,084
Lake/waterscape maintenance	50,599	-	-	50,599
General maintenance and repairs	133,721	-	-	133,721
Roof maintenance	39,081	-	-	39,081
Fire alarm system monitor/repair	907	-	-	907
Custodial	12,336	-	-	12,336
Electricity	131,548	-	-	131,548
Water	172,285	-	-	172,285
Gas	30,713	-	-	30,713
Management fees	66,958	-	-	66,958
Telephone	1,606	-	-	1,606
Trash removal	109,652	-	-	109,652
Street sweeping	3,724	-	-	3,724
Pest control	30,507	-	-	30,507
Audit & tax preparation	1,750	-	-	1,750
Reserve analysis	1,120	-	-	1,120
Legal and collection	9,354	-	-	9,354
Interest expense	-	-	256,852	256,852
Insurance	136,397	-	-	136,397
Printing and postage	14,531	-	-	14,531
Provision for uncollectible assessments	1,657	-	-	1,657
Miscellaneous	3,329	-	-	3,329
Painting	-	2,770	-	2,770
Carpet	-	2,373	-	2,373
Asphalt	-	97,976	-	97,976
Interest expense	-	-	-	-
Income taxes	87	-	-	87
Total expenses	1,208,441	103,119	256,852	1,568,412
Excess (deficiency) of revenues over expenses	710,836	328,485	(256,852)	782,469
Beginning fund balances (deficit)	1,279,335	311,808	(5,180,279)	(3,589,136)
Prior principal payment transfer	(2,070,328)	-	2,070,328	-
Ending fund balances (deficit)	\$ (80,157)	\$ 640,293	\$ (3,366,803)	\$ (2,806,667)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

**SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Operating Fund	Replacement Fund	Loan and Settlement Fund	Total
Cash flows from operating activities				
Excess (deficiency) of revenues over expenses	\$ 710,836	\$ 328,485	\$ (256,852)	\$ 332,777
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities				
Increase in assessments receivable	(74,267)	-	-	(74,267)
Decrease in prepaid expenses	8,019	-	-	8,019
Increase in accounts payable	37,659	-	-	37,659
Decrease in prepaid assessments	(5,286)	-	-	(5,286)
Increase in income tax payable	77	-	-	77
Total adjustments	(33,798)	-	-	(33,798)
Net cash provided by (used in) operating activities	677,038	328,485	(256,852)	748,671
Cash flows from investing activities				
Purchase of short-term investments	-	-	-	-
Net cash provided by (used in) investing activities	-	-	-	-
Cash flows from financing activities				
Change in interfund payable balances	(765,850)	64,381	701,469	-
Principal payment on note	-	-	(444,607)	(444,607)
Net cash provided by (used in) financing activities	(765,850)	64,381	256,862	(444,607)
Net increase (decrease) in cash and cash equivalents	(88,812)	392,866	10	304,064
Cash and cash equivalents at beginning of year	216,553	26,161	6,721	249,435
Cash and cash equivalents at end of year	\$ 127,741	\$ 419,027	\$ 6,731	\$ 553,499
Income taxes paid	\$ 10	\$ -	\$ -	\$ 10

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1 - ORGANIZATION

Seabridge Village Homeowners Association ("Association") is a corporation organized for the purposes of maintaining and preserving common property of the Seabridge Village community. The Association consists of 422 residential units occupying a site in Huntington Beach, California. The Association was incorporated in July 1983.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Principles of Accounting: The books and records for the Association are maintained on a modified accrual basis of accounting. For these audited financial statements, adjustments have been made at the year end to convert the Association's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.
- (b) Funds: The Association uses fund accounting which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and property manager. Disbursements from the replacement fund generally may be made only for their designated purposes.
- (c) Recognition of assets and depreciation policy: Real property contributed to the Association by the developer has not been recorded for financial statement purposes since the Association's governing documents impose severe limitations on its disposition. The Association recognizes personal property assets at cost. The property is depreciated over its estimated useful life using the straight line method of depreciation.
- (d) 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.
- (e) Interest earned: The Board's policy is to allocate to the replacement fund interest earned on all replacement fund cash accounts.
- (f) Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 19, 2011, the date the financial statements were available to be issued.

SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

NOTE 4 - OWNERS' ASSESSMENTS

During fiscal 2010, assessments to owners were \$2,322,293 of which \$431,604 was designated to the replacement fund. The annual budget and owners' assessments are determined by the Board of Directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Substantially all accumulated funds are held in separate savings or short-term investment accounts and are generally not available for expenditures for normal operations.

A study was conducted on August 5, 2010 by Association Reserves Orange County to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 3.5% and interest at 1% net of taxes, on amounts funded for future major repairs and replacements.

The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The ideal cash replacement fund balance recommended by the study at August 5, 2010 was \$2,630,605. As of December 31, 2010, the actual available replacement fund cash balance was \$419,027. The Board of Directors has decided to fund in 2011 only 61% of the amount recommended by the study. Accordingly, \$465,238 has been included in the 2011 budget. For that reason, or because actual expenditures may vary from estimated future expenditures and the variations may be material, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2010, the operating fund owed the replacement fund \$221,266.

NOTE 6 - FEDERAL AND STATE TAXES

The Association qualifies as a tax-exempt homeowners association under Internal Revenue Code Section 528 for the year ended December 31, 2010. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 8.84% by the State of California.

SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2010

NOTE 6 - FEDERAL AND STATE TAXES - CONTINUED

The Association has not recorded deferred tax assets or liabilities due to the fact that there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities. If there were differences in the basis, a liability or benefit would be recognized based on the expected tax rate in the years in which the differences would be reversed.

The Association's federal income tax return for fiscal year end 2007, 2008, 2009, and 2010 may be subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE 7 - ASSESSMENTS RECEIVABLE

As of December 31, 2010, the Association had delinquent assessments receivable of \$266,916. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. Delinquent assessments may be secured by a lien on the property against which assessments are made and the Association has the power to foreclose the property of any owner who fails to pay assessments.

It is the opinion of the Association that the allowance for doubtful accounts of \$150,000 is adequate to cover any accounts that may eventually be uncollectible. The allowance was computed by adding all receivable balances over \$1000.

The Association writes off receivable balances once all collection alternatives have been exhausted.

NOTE 8 - BANK LOAN

In August, 2004, the Association opened a \$3,000,000 draw down line of credit with Sunwest Bank. In February 2006, the line of credit was increased to \$5,000,000. In October 2006, the loan was converted to a fully amortized loan with Pacific Western Bank. The total amount of \$5,000,000 was advanced by Pacific Western Bank. Monthly payments of \$58,454.95 include interest at a current rate of 6.99%. The loan balance as of December 31, 2010 was \$3,373,534.

Principle payments for the next five years are as follows:

December 31,	2011	\$501,808
	2012	\$517,083
	2013	\$554,408
	2014	\$594,427
	2015	\$637,335

SEABRIDGE VILLAGE HOMEOWNERS ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
 REPAIRS AND REPLACEMENTS
 AS OF DECEMBER 31, 2010
 (UNAUDITED)

A study was conducted on August 5, 2010 by Association Reserves Orange County to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Replacement costs and useful lives can be found in published manuals such as construction estimators, appraisal handbooks, and valuation guides. Remaining lives are calculated from the useful lives and ages of assets, and adjusted according to conditions such as design, manufacture quality, usage, exposure to the elements and maintenance history. Funding requirements consider an annual inflation rate of 3.5% and interest at 1% net of taxes, on amounts funded for future major repairs and replacements. The study recommends an annual funding amount of \$756,000 of which \$465,238 has been included in the 2011 budget. The ideal cash replacement fund balance was \$2,630,605, per the reserve study. As of December 31, 2010, the actual available replacement fund cash balance was \$419,027.

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

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost
Pool/spa	0-9	\$ 248,150
Roofing	3-15	631,450
Lakebeds	0-6	164,050
Termite treatment	5	381,300
Bridges	0	139,750
Gutters	0	22,750
Skylights	0	45,500
Racquetball court	0	4,950
Repaint	0-9	812,350
Wood trim	3	60,250
Irrigation/backflow	0-25	50,250
Concrete/asphalt	0-24	238,850
Decks	0-15	574,700
Doors	0-24	485,650
Other	various	89,350
Total		\$ 3,949,300