



DATE: APRIL 21, 2015
TO: THE MEMBERSHIP – PARK PASEO HOMEOWNERS ASSOCIATION
FROM: THE BOARD OF DIRECTORS
RE: 2014 AUDIT

Enclosed please find the independent auditor's report for the fiscal year ended December 31, 2014 as prepared by Inouye, Shively, Longtin & Klatt. This audit is provided to each association member in accordance with California Civil Code, California Corporations Code and the association's governing documents.

To comply with California regulations, please note the following:

- (1) A balance sheet as of the association's fiscal year end is included in the auditor's report for your review.
- (2) The names and addresses of the current members is located at the offices of Professional Community Management, Inc. (PCM); 23726 Birtcher Drive; Lake Forest, CA 92630.
- (3) It is important to keep this audit with your association paperwork for future reference.

Please contact our Community Manager, Colton Salinger, at 949-465-2463 or csalinger@pcminternet.com if you have any questions or require additional information.



Member:
American Institute
of Certified Public
Accountants

Member:
California Society
of Certified Public
Accountants

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To the Board of Directors and Members of
Park Paseo Homeowners Association

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Park Paseo Homeowners Association, which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses, and changes in fund balance, 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 Park Paseo Homeowners Association as of December 31, 2014, 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.

Board of Directors and Members
Park Paseo Homeowners Association

Emphasis of Matter

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 replacements as discussed in Note 3 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

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 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.

Inouye, Shively, Longtin & Klatt

Inouye, Shively, Longtin & Klatt

Laguna Hills, CA
April 13, 2015

**PARK PASEO HOMEOWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2014**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 197,080	\$ 217,308	\$ 414,388
Investments	-	510,000	510,000
Assessments receivable	21,754	-	21,754
Allowance for doubtful accounts	(17,147)	-	(17,147)
Accrued interest receivable	-	488	488
Prepaid expenses	844	-	844
Interfund account	50	(50)	-
Total assets	<u>202,581</u>	<u>727,746</u>	<u>930,327</u>
Liabilities			
Accounts payable	20,929	-	20,929
Prepaid assessments	12,764	-	12,764
Income taxes payable	10	99	109
	<u>33,703</u>	<u>99</u>	<u>33,802</u>
Fund balances	<u>168,878</u>	<u>727,647</u>	<u>896,525</u>
Total liabilities and fund balances	<u>\$ 202,581</u>	<u>\$ 727,746</u>	<u>\$ 930,327</u>

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

PARK PASEO HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 523,524	\$ 143,976	\$ 667,500
Interest income	-	2,201	2,201
Clubhouse rental	8,625	-	8,625
Swim team income	850	-	850
Other income	9,212	9,330	18,542
Total revenues	<u>542,211</u>	<u>155,507</u>	<u>697,718</u>
Expenses			
Landscape services	158,714	43,104	201,818
Pool/spa services	33,071	51,999	85,070
General maintenance and repairs	26,458	-	26,458
Security/patrol services	34,427	-	34,427
Pest control	5,708	-	5,708
Janitorial services	13,729	-	13,729
Water	37,530	-	37,530
Electricity	31,286	-	31,286
Gas	13,838	-	13,838
Telephone	4,096	-	4,096
Refuse	2,261	-	2,261
Management fees	80,400	-	80,400
Office supplies/printing/postage	13,283	-	13,283
Insurance	15,122	-	15,122
Legal and collection	13,747	-	13,747
Audit and tax preparation	1,800	-	1,800
Reserve study	1,695	-	1,695
General and administrative	11,347	-	11,347
Provision for doubtful accounts	7,569	-	7,569
Roofs	-	32,970	32,970
Clubhouse	-	35,497	35,497
Recreation area	-	6,970	6,970
Income tax	10	609	619
Total expenses	<u>506,091</u>	<u>171,149</u>	<u>677,240</u>
Excess (deficiency) of revenues over expenses	36,120	(15,642)	20,478
Beginning fund balances	132,772	743,275	876,047
Interfund transfer	(14)	14	-
Ending fund balances	<u>\$ 168,878</u>	<u>\$ 727,647</u>	<u>\$ 896,525</u>

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

PARK PASEO HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (deficiency) of revenues over expenses	\$ 36,120	\$ (15,642)	\$ 20,478
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities			
Decrease in net assessments receivable	5,249	-	5,249
Decrease in accrued interest receivable	-	374	374
Decrease (increase) in prepaid expenses	(55)	84	29
Increase in accounts payable	8,014	-	8,014
Increase in prepaid assessments	261	-	261
Increase in income taxes payable	-	20	20
Total adjustments	<u>13,469</u>	<u>478</u>	<u>13,947</u>
Net cash provided by (used in) operating activities	49,589	(15,164)	34,425
Cash flows from investing activities:			
Purchase of investments	-	(70,000)	(70,000)
Net cash used in investing activities	-	(70,000)	(70,000)
Cash flows from financing activities:			
Change in interfund payable balances	(44,995)	44,995	-
Interfund transfer	(14)	14	-
Net cash provided by (used in) financing activities	(45,009)	45,009	-
Net increase (decrease) in cash and cash equivalents	4,580	(40,155)	(35,575)
Cash and cash equivalents at beginning of year	192,500	257,463	449,963
Cash and cash equivalents at end of year	<u>\$ 197,080</u>	<u>\$ 217,308</u>	<u>\$ 414,388</u>
Supplemental disclosures			
Income taxes paid	<u>\$ 10</u>	<u>\$ 506</u>	<u>\$ 516</u>

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

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014

NOTE 1 - NATURE OF ORGANIZATION

Park Paseo Homeowners Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 625 residential units occupying a site in Irvine, California and was incorporated on June 9, 1977.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Accounting:** Accounting records for the Association are maintained on the accrual basis of accounting, which recognizes revenues when earned and expenses when incurred. Additional adjustments have been made for audit and tax purposes.

(b) **Fund Accounting:** The Association uses fund accounting which requires that funds be classified separately for accounting and reporting purposes. Financial resources are classified in the following funds established according to their nature and purpose:

Operating Fund - Available for normal operating purposes. Disbursements are generally at the discretion of the Board of Directors.

Replacement Fund - Available for major repairs and replacements of common area components. Disbursements generally may be made only for their designated purpose.

(c) **Capitalization and Depreciation Policy:** Real property contributed by the developer as well as replacements and improvements are not capitalized since the common areas are owned by the individual unit owners and the Association's governing documents impose restrictions on its disposition. Any significant personal property assets are capitalized at cost and depreciated over its estimated useful life using the straight line method of depreciation.

(d) **Cash Equivalents and Investments:** Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Investments consist primarily of certificates of deposit and other securities with original maturities over 90 days. Investments are considered to be held to maturity which range from February 2015 to December 2016. Cash equivalents and investments are stated at cost.

(e) **Investment Income:** Investment income consists primarily of interest and dividends earned on cash, cash equivalents and investment accounts, and is recorded as it is earned. Investment income is generally accounted for in the fund in which it is earned.

(f) **Estimates:** Financial statements prepared in conformity with generally accepted accounting principles require the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(g) **Subsequent Events:** The Association has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through April 13, 2015, the date the financial statements were available to be issued.

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is in compliance with its governing documents that require funds to be accumulated for future major repairs and replacements of common property components. Substantially all accumulated funds are held in separate accounts and are generally not available for normal operating purposes.

The Association's reserve funding policy was based on a study conducted in July 2014, by an independent analyst to estimate the remaining useful lives and costs of future major repairs and replacements of common property components. The study recommends an annual member contribution of \$124,016. The Association's 2015 budget includes a reserve contribution of \$169,017. The study recommends a fully funded reserve balance of \$765,642. As of December 31, 2014, the actual available replacement fund balance was \$727,647.

Funds are being accumulated in the replacement fund based on estimated future costs. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. If additional funds are needed, the Association has the right to increase assessments, pass special assessments, or delay repairs and replacements until funds are available.

NOTE 4 - INCOME TAXES

For the year ended December 31, 2014, the Association qualified as a tax-exempt homeowners association under Internal Revenue Code Section 528 and California Revenue and Taxation Code Section 23701t. Under these Sections the Association is not taxed on net income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes investment income and revenues received from nonmembers, is taxed at 30% by the federal government and 8.84% by the State of California.

The Association recognizes tax benefits only to the extent that it believes it is more likely than not that its tax positions will be sustained upon examination by taxing authorities. The Association believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded. The Association's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed, and by the California Franchise Tax Board for four years after they are filed.

NOTE 5 - MEMBER ASSESSMENTS

Association members are subject to paying assessments to fund the Association's operating activities, capital acquisitions, and future major repairs and replacements. During the year ended December 31, 2014, the monthly assessment was \$89 per unit. The 2015 monthly assessment is budgeted to increase to \$95 per unit. The annual budget and member assessments are determined by the Board of Directors. The Association retains excess funds at the end of the year, if any, for use in future periods.

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2014

NOTE 6 - ASSESSMENTS RECEIVABLE

Assessments receivable represent assessments and other fees due from members. The Association's governing documents provide 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.

The allowance for doubtful accounts represents an estimate of the amount of accounts receivable that may eventually be uncollectible. The allowance was computed by adding all receivables with balances older than 90 days.

Receivable balances are written off once all collection alternatives have been exhausted and the Board of Directors has deemed them uncollectible.

NOTE 7 - CONCENTRATION OF CREDIT RISK

An investment in a money market fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. As of December 31, 2014, the Association had approximately \$170,000 deposited into a money market fund at Morgan Stanley and approximately \$41,000 deposited in a federated government money market fund at Comerica Bank. Investments held by the federated government money market fund are obligations of, or backed by, the U. S. government or its agencies.

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. As of December 31, 2014, the replacement fund owed the operating fund \$50.

PARK PASEO HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF DECEMBER 31, 2014
(UNAUDITED)

A study was conducted in July 2014, by an independent analyst to estimate the remaining useful lives and the repair and replacement costs of common property components. The study was based on information provided by management, the Board of Directors, and Association vendors, as well as the knowledge and experience of the analyst. The study preparer may also use published manuals such as construction estimators, appraisal handbooks and valuation guides to estimate costs and remaining useful lives. The estimated costs were based on current estimated repair and replacement costs at the time of the study. Funding requirements consider an inflation rate of 2%, scheduled annual contribution increase of 2%, and an investment rate of 1% on accumulated replacement funds. The study recommends an annual member contribution of \$124,016. The Association's 2015 budget includes a reserve contribution of \$169,017. The study recommends a fully funded reserve balance of \$765,642. As of December 31, 2014, the actual available replacement fund balance was \$727,647.

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

Common Property Components	Estimated Remaining Useful Lives (Years)	Estimated Repair and Replacement Costs
Parking lot	0 - 3	\$ 17,108
Roofs	8 - 46	61,099
Painting	0 - 20	37,529
Fencing/walls	16 - 25	202,902
Lighting	0 - 7	152,102
Pool/spa	0 - 12	325,261
Clubhouse	0 - 26	359,698
Tennis court	0 - 11	68,394
Recreation area	0 - 12	120,324
Signs	0 - 2	4,316
Golf cart	0	0
Landscape	1 - 2	99,652
Termite	1 - 13	5,060
Total		<u>\$ 1,453,445</u>