



COPY

DATE: MAY 4, 2017
TO: THE MEMBERSHIP – PARK PASEO HOMEOWNERS ASSOCIATION
FROM: THE BOARD OF DIRECTORS
RE: 2016 AUDIT

Enclosed please find the independent auditor's report for the fiscal year ended December 31, 2016 as prepared by Inouye, Shively & Klatt, CPA's. 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 Associa Professional Community Management, Inc. (PCM); 27051 Towne Centre Drive, Suite 200; Foothill Ranch, CA 92610.
- (3) It is important to keep this audit with your association paperwork for future reference.
- (4) A Contact Information Request form is also included in this packet. Please complete the information and submit it to the office at your first opportunity.

Please contact our Community Manager at Associa PCM, Lisa Gross, at 714-730-1560 or lisa.gross@associa.us if you have any questions or require additional information.

MEMORANDUM

DATE: May 4, 2017
TO: Park Paseo Homeowners Association Membership
FROM: Park Paseo Homeowners Association Board of Directors
RE: Your Contact Information

California Civil Code now requires the Association to solicit information from each member for the purpose of receiving notifications from the Association. Please complete and return the form below so that our information can be updated in time for the distribution of next year's budget information and annual disclosure.

If you have any questions, please contact our Community Association Manager, Lisa Gross at 714-730-1560 or via email at lisa.gross@associa.us.

- **If you would like to receive Association information electronically via eBlasts**, you can "opt in" via the Associa website at www.associaonline.com. Simply click on the Log In button, then input your account number to create a username and password. It's so easy!

My/our name(s) is/are:

My/our Association address is:

The address or addresses to which notices from the Association are to be delivered is/are:

An alternate or secondary address, if any, to which notices from the Association are to be delivered is:

The name and address of my legal representative, if any, including my power of attorney or other person who can be contacted in the event of my extended absence from my home is:

My/our unit is currently (check one):

- Owner-occupied
- Rented out
- Developed, but vacant
- Undeveloped land

My/our other methods of contact are (these are optional):

Cell: _____
Home: _____
Email: _____

Please return this form to:

Park Paseo Homeowners Association
25 Christamon West
Irvine, CA 92620



Member:
American Institute
of Certified Public
Accountants

Member:
California Society
of Certified Public
Accountants

23041 Avenida de la Carlota, Suite 310
Laguna Hills, CA 92653

Phone: (949) 586-6640
Fax: (949) 586-6137

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, 2016, 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, 2016, 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 on Future Major Repairs and Replacements

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 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 & Klatt

Inouye, Shively, & Klatt

Laguna Hills, CA
April 27, 2017

PARK PASEO HOMEOWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 240,000	\$ 523,750	\$ 763,750
Investments	100,000	200,000	300,000
Assessments receivable	19,538	-	19,538
Allowance for doubtful accounts	(17,000)	-	(17,000)
Accounts receivable - other	375	-	375
Accrued interest receivable	387	121	508
Prepaid expenses	319	-	319
Interfund account	(83,696)	83,696	-
Total assets	<u>259,923</u>	<u>807,567</u>	<u>1,067,490</u>
Liabilities			
Accounts payable	24,846	2,401	27,247
Other payables	208	-	208
Prepaid assessments	30,494	-	30,494
Refundable deposits	500	-	500
Income taxes payable	10	360	370
	<u>56,058</u>	<u>2,761</u>	<u>58,819</u>
Fund balances	<u>203,865</u>	<u>804,806</u>	<u>1,008,671</u>
Total liabilities and fund balances	<u>\$ 259,923</u>	<u>\$ 807,567</u>	<u>\$ 1,067,490</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, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 558,202	\$ 221,798	\$ 780,000
Interest income	1,393	2,837	4,230
Clubhouse rental	14,350	-	14,350
Recovery of bad debt	3,027	-	3,027
Other income	18,102	-	18,102
Total revenues	<u>595,074</u>	<u>224,635</u>	<u>819,709</u>
Expenses			
Landscape services	179,096	-	179,096
Pool/spa services	42,916	39,593	82,509
General maintenance and repairs	97,868	-	97,868
Security/patrol services	36,329	-	36,329
Pest control	1,133	-	1,133
Janitorial services	13,529	-	13,529
Water	40,496	-	40,496
Electricity	30,528	-	30,528
Gas	12,019	-	12,019
Telephone	3,085	-	3,085
Refuse	1,874	-	1,874
Management fees	80,400	-	80,400
Office supplies/printing/postage	12,865	-	12,865
Insurance	16,428	-	16,428
Legal and collection	6,400	-	6,400
Audit and tax preparation	1,700	-	1,700
Reserve study	2,295	-	2,295
General and administrative	7,837	-	7,837
Lighting	-	87,936	87,936
Recreation area	-	18,886	18,886
Deck	-	2,399	2,399
Income tax	10	1,314	1,324
Total expenses	<u>586,808</u>	<u>150,128</u>	<u>736,936</u>
Excess of revenues over expenses	8,266	74,507	82,773
Beginning fund balances	195,589	730,309	925,898
Interfund transfer	10	(10)	-
Ending fund balances	<u><u>\$ 203,865</u></u>	<u><u>\$ 804,806</u></u>	<u><u>\$ 1,008,671</u></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, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 8,266	\$ 74,507	\$ 82,773
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Decrease in net assessments receivable	13,880	-	13,880
Decrease in accounts receivable - other	317	-	317
Decrease in accrued interest receivable	-	521	521
Decrease in prepaid expenses	6,122	-	6,122
Increase (decrease) in accounts payable	(11,516)	2,401	(9,115)
Increase in other payable	183	-	183
Increase in prepaid assessments	17,775	-	17,775
Increase in refundable deposits	500	-	500
Decrease in income taxes payable	-	(174)	(174)
Total adjustments	<u>27,261</u>	<u>2,748</u>	<u>30,009</u>
Net cash provided by operating activities	35,527	77,255	112,782
Cash flows from investing activities:			
Disposition of investments - net	-	370,000	370,000
Net cash provided by investing activities	-	370,000	370,000
Cash flows from financing activities:			
Change in interfund payable balances	83,696	(83,696)	-
Interfund transfer	10	(10)	-
Net cash provided by (used in) financing activities	<u>83,706</u>	<u>(83,706)</u>	<u>-</u>
Net increase in cash and cash equivalents	119,233	363,549	482,782
Cash and cash equivalents at beginning of year	120,767	160,201	280,968
Cash and cash equivalents at end of year	<u>\$ 240,000</u>	<u>\$ 523,750</u>	<u>\$ 763,750</u>
Supplemental disclosures			
Income taxes paid	<u>\$ -</u>	<u>\$ 1,496</u>	<u>\$ 1,496</u>

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

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 April to September 2017. 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 27, 2017, the date the financial statements were available to be issued.

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2016

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is in compliance with its governing documents that require funds 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 November 2016, 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 \$208,483. The Association's 2017 budget includes a reserve contribution of \$210,372. The study recommends a fully funded reserve balance of \$1,142,066. As of December 31, 2016, the actual available replacement fund balance was \$721,110.

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, 2016, 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, 2016, the monthly assessment was \$104 per unit. The 2017 monthly assessment is budgeted to increase to \$106 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, 2016

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, 2016, the Association had approximately \$102,000 deposited in a federated government money market fund at Comerica Bank. Investments held by the 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, 2016, the operating fund owed the replacement fund \$83,696.

NOTE 9 - RELATED PARTY TRANSACTION

The brother of a member of the Board of Directors performs handyman services for the Association. During the year ended December 31, 2016, approximately \$9,170 was paid to this vendor for services rendered.

PARK PASEO HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF DECEMBER 31, 2016
(UNAUDITED)

A study was conducted in November 2016, 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 \$208,483. The Association's 2017 budget includes a reserve contribution of \$210,372. The study recommends a fully funded reserve balance of \$1,142,066. As of December 31, 2016, the actual available replacement fund balance was \$721,110.

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	3	\$ 16,255
Roofs	6 – 44	63,560
Painting	0 – 18	46,479
Fencing / walls	0 – 18	215,991
Lighting	0 – 25	149,428
Pool / spa	0 – 14	684,052
Clubhouse	0 – 25	331,643
Tennis court	3 – 9	69,786
Rec area	0 – 13	161,235
Deck / trellis	3 – 24	62,974
Signs	0 – 3	31,129
Landscape	0 – 2	85,937
Irrigation	0 – 11	58,929
Termite	3	5,161
Total		<u>\$ 1,982,559</u>