



DATE: APRIL 26, 2018  
TO: THE MEMBERSHIP – PARK PASEO HOMEOWNERS ASSOCIATION  
FROM: THE BOARD OF DIRECTORS  
RE: 2017 AUDIT

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Enclosed please find the independent auditor's report for the fiscal year ended December 31, 2017 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 General Manager at Associa PCM, Lisa Gross, at 714-730-1560 or [lisa.gross@associa.us](mailto:lisa.gross@associa.us) if you have any questions or require additional information.

**MEMORANDUM**

**DATE:** April 26, 2018  
**TO:** Park Paseo Homeowners Association Membership  
**FROM:** Park Paseo Homeowners Association Board of Directors  
**RE:** Your Contact Information

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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 General Manager, Lisa Gross at 714-730-1560 or via email at [lisa.gross@associa.us](mailto: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](http://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!
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My/our name(s) is/are:  
\_\_\_\_\_  
\_\_\_\_\_

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 Association address is:  
\_\_\_\_\_  
\_\_\_\_\_

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

My/our unit is currently (check one):  
 Owner-occupied  
 Rented out  
 Developed, but vacant  
 Undeveloped land

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

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, 2017, 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, 2017, 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, 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 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 9, 2018

**PARK PASEO HOMEOWNERS ASSOCIATION**  
**BALANCE SHEET**  
**AS OF DECEMBER 31, 2017**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 225,968	\$ 585,112	\$ 811,080
Investments	-	400,000	400,000
Assessments receivable	16,126	-	16,126
Allowance for doubtful accounts	(15,000)	-	(15,000)
Accounts receivable - other	994	-	994
Accrued interest receivable	-	864	864
Prepaid expenses	6,217	-	6,217
Interfund account	13,911	(13,911)	-
<b>Total assets</b>	<u>248,216</u>	<u>972,065</u>	<u>1,220,281</u>
<b>Liabilities</b>			
Accounts payable	28,247	-	28,247
Prepaid assessments	37,427	-	37,427
Refundable deposits	3,025	-	3,025
Income taxes payable	10	670	680
	<u>68,709</u>	<u>670</u>	<u>69,379</u>
<b>Fund balances</b>	<u>179,507</u>	<u>971,395</u>	<u>1,150,902</u>
<b>Total liabilities and fund balances</b>	<u>\$ 248,216</u>	<u>\$ 972,065</u>	<u>\$ 1,220,281</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, 2017**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Member assessments	\$ 584,628	\$ 210,372	\$ 795,000
Investment income	1,153	5,113	6,266
Clubhouse rental	3,840	-	3,840
Recovery of bad debt	2,000	-	2,000
Other income	5,046	-	5,046
Total revenues	<u>596,667</u>	<u>215,485</u>	<u>812,152</u>
<b>Expenses</b>			
Landscape services	210,111	3,698	213,809
Pool/spa services	42,533	-	42,533
General maintenance and repairs	52,932	-	52,932
Security/patrol services	38,237	-	38,237
Pest control	4,533	3,744	8,277
Janitorial services	17,473	-	17,473
Water	46,308	-	46,308
Electricity	32,004	-	32,004
Gas	11,672	-	11,672
Telephone	3,801	-	3,801
Refuse	1,941	-	1,941
Management fees	103,900	-	103,900
Office supplies/printing/postage	14,576	-	14,576
Insurance	14,815	-	14,815
Legal and collection	4,881	-	4,881
Audit/tax preparation/reserve study	3,395	-	3,395
General and administrative	17,903	106	18,009
Furniture & equipment	-	2,240	2,240
Lighting	-	31,342	31,342
Recreation area	-	5,746	5,746
Income tax	10	2,020	2,030
Total expenses	<u>621,025</u>	<u>48,896</u>	<u>669,921</u>
Excess (deficiency) of revenues over expenses	(24,358)	166,589	142,231
Beginning fund balances	203,865	804,806	1,008,671
<b>Ending fund balances</b>	<u>\$ 179,507</u>	<u>\$ 971,395</u>	<u>\$ 1,150,902</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, 2017**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Excess (deficiency) of revenues over expenses	\$ (24,358)	\$ 166,589	\$ 142,231
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities			
Decrease in net assessments receivable	1,412	-	1,412
Increase in accounts receivable - other	(619)	-	(619)
Decrease (increase) in accrued interest receivable	387	(743)	(356)
Increase in prepaid expenses	(5,898)	-	(5,898)
Increase (decrease) in accounts payable	3,401	(2,401)	1,000
Decrease in other payable	(208)	-	(208)
Increase in prepaid assessments	6,933	-	6,933
Increase in refundable deposits	2,525	-	2,525
Increase in income taxes payable	-	310	310
Total adjustments	7,933	(2,834)	5,099
Net cash provided by (used in) operating activities	(16,425)	163,755	147,330
<b>Cash flows from investing activities:</b>			
Disposition (purchase) of investments - net	100,000	(200,000)	(100,000)
Net cash provided by (used in) investing activities	100,000	(200,000)	(100,000)
<b>Cash flows from financing activities:</b>			
Change in interfund payable balances	(97,607)	97,607	-
Net cash provided by (used in) financing activities	(97,607)	97,607	-
<b>Net increase (decrease) in cash and cash equivalents</b>	(14,032)	61,362	47,330
Cash and cash equivalents at beginning of year	240,000	523,750	763,750
Cash and cash equivalents at end of year	\$ 225,968	\$ 585,112	\$ 811,080
<b>Supplemental disclosures</b>			
Income taxes paid	\$ -	\$ 1,710	\$ 1,710

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

**PARK PASEO HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**

**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 generally not capitalized since the Association's governing documents impose restrictions on its disposition. Significant personal property assets, if any, are generally 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 January to November 2018. 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 9, 2018, the date the financial statements were available to be issued.



**PARK PASEO HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2017**

**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 2017, 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 a fully funded reserve balance of \$1,132,769. As of December 31, 2017, the actual available replacement fund balance was \$971,395. The study recommends an annual member contribution of \$193,985. The Association's 2018 budget includes a reserve contribution of \$193,985.

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, 2017, 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, 2017, the monthly assessment was \$106 per unit. The 2018 monthly assessment is budgeted to increase to \$111 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, 2017**

**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.

Generally accepted accounting principles require uncollectible receivables to be accounted for using the allowance method, which requires an annual provision for doubtful accounts. As such, 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, 2017, the Association had approximately \$424,000 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.

**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, 2017, approximately \$11,500 was paid to this vendor for services rendered.

**PARK PASEO HOMEOWNERS ASSOCIATION**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**  
**REPAIRS AND REPLACEMENTS**  
**AS OF DECEMBER 31, 2017**  
**(UNAUDITED)**

A study was conducted in November 2017, 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 a fully funded reserve balance of \$1,132,769. As of December 31, 2017, the actual available replacement fund balance was \$971,395. The study recommends an annual member contribution of \$193,985. The Association's 2018 budget includes a reserve contribution of \$193,985.

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	2	\$ 16,557
Roofs	5 - 43	64,816
Painting	0 - 17	47,106
Fencing/walls	0 - 17	220,156
Lighting	2 - 24	154,274
Pools / spa	0 - 13	691,776
Clubhouse	0 - 24	317,057
Tennis courts	2 - 8	70,992
Rec area	0 - 12	165,915
Deck / trellis	2 - 23	64,217
Signs	0 - 2	41,151
Landscape	1 - 2	93,500
Irrigation	0 - 10	60,102
Termite control	2	5,161
Total		<u>\$ 2,012,780</u>

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