



Member:
American Institute
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, 2020, and the related statements of revenues, expenses, and changes in fund balances, 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 qualified audit opinion.

Basis for Qualified Opinion

Records or supporting documents confirming the amount of the refundable deposits were not made available to us. As such, we were unable to determine if the amount recorded in the financial statements is accurate.

Board of Directors and Members
Park Paseo Homeowners Association

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Park Paseo Homeowners Association as of December 31, 2020, 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.

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 required supplementary information on future major repairs and replacements on page 10 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 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.

Inouye, Shively, Klatt & McCorvey CPAs, LLP

Inouye, Shively, Klatt & McCorvey CPAs, LLP

Laguna Hills, CA
March 21, 2021

PARK PASEO HOMEOWNERS ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 304,734	\$ 804,803	\$ 1,109,537
Investments	-	100,000	100,000
Assessments receivable	2,513	-	2,513
Allowance for doubtful accounts	(600)	-	(600)
Other receivables	1,472	-	1,472
Accrued interest receivable	-	802	802
Prepaid expenses	3,737	-	3,737
Interfund account	(88,109)	88,109	-
Total assets	<u>223,747</u>	<u>993,714</u>	<u>1,217,461</u>
Liabilities			
Accounts payable	23,542	-	23,542
Other payables	320	-	320
Prepaid/deferred assessments	58,155	993,714	1,051,869
Refundable deposits	4,675	-	4,675
Income taxes payable	2,445	-	2,445
	<u>89,137</u>	<u>993,714</u>	<u>1,082,851</u>
Fund balances	<u>134,610</u>	<u>-</u>	<u>134,610</u>
Total liabilities and fund balances	<u>\$ 223,747</u>	<u>\$ 993,714</u>	<u>\$ 1,217,461</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, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Member assessments	\$ 697,224	\$ 412,709	\$ 1,109,933
Investment income	421	9,450	9,871
Clubhouse rental	1,800	-	1,800
Recovery of bad debt	2,399	-	2,399
Other income	2,478	-	2,478
Total revenues	<u>704,322</u>	<u>422,159</u>	<u>1,126,481</u>
Expenses			
Landscape services	244,852	-	244,852
Pool/spa services	33,519	413,950	447,469
General maintenance and repairs	30,437	-	30,437
Security/patrol services	43,435	-	43,435
Pest control	5,725	-	5,725
Janitorial services	19,130	-	19,130
Water	38,146	-	38,146
Electricity	32,981	-	32,981
Gas	6,032	-	6,032
Telephone	4,266	-	4,266
Refuse	1,407	-	1,407
Management fees	111,888	-	111,888
Office supplies/printing/postage	3,655	-	3,655
Insurance	14,894	-	14,894
Legal and collection	15,545	-	15,545
Audit/tax preparation/reserve study	2,715	-	2,715
General and administrative	53,917	-	53,917
Painting	-	2,825	2,825
Lighting	-	5,384	5,384
Income tax	3,273	-	3,273
Total expenses	<u>665,817</u>	<u>422,159</u>	<u>1,087,976</u>
Excess of revenues over expenses	38,505	-	38,505
Beginning fund balances	96,105	-	96,105
Ending fund balances	<u>\$ 134,610</u>	<u>\$ -</u>	<u>\$ 134,610</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, 2020

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 38,505	\$ -	\$ 38,505
Adjustments to reconcile excess of revenues over expenses to net cash used in operating activities			
Decrease in net assessments receivable	121	-	121
Increase in other receivables	(1,472)	-	(1,472)
Decrease in accrued interest receivable	39	3,743	3,782
Increase in prepaid expenses	(2,865)	-	(2,865)
Decrease in accounts payable	(68,842)	-	(68,842)
Decrease in other payables	(5,130)	-	(5,130)
Increase (decrease) in prepaid/deferred assessments	26,214	(224,933)	(198,719)
Increase in refundable deposits	4,675	-	4,675
Decrease in income taxes payable	(1,562)	-	(1,562)
Total adjustments	(48,822)	(221,190)	(270,012)
Net cash used in operating activities	(10,317)	(221,190)	(231,507)
Cash flows from investing activities:			
Disposition of investments - net	-	600,000	600,000
Net cash provided by investing activities	-	600,000	600,000
Cash flows from financing activities:			
Change in interfund payable balances	71,310	(71,310)	-
Net cash provided by (used in) financing activities	71,310	(71,310)	-
Net increase in cash and cash equivalents	60,993	307,500	368,493
Cash and cash equivalents at beginning of year	243,741	497,303	741,044
Cash and cash equivalents at end of year	\$ 304,734	\$ 804,803	\$ 1,109,537
Supplemental disclosures			
Income taxes paid	\$ 6,272	\$ -	\$ 6,272

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

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 a modified accrual basis of accounting, which recognizes assessments when billed, but recognizes other revenues when received and expenses when paid. For audit and tax purposes, adjustments have been made to convert the Association's financial statements to the full accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

(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 is January 2021. 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 March 21, 2021, the date the financial statements were available to be issued.

PARK PASEO HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2020

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents 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. For the year ended December 31, 2020, \$187,776 was contributed to the replacement fund.

The Association's reserve funding policy was based on a study conducted in September 2020, 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 \$1,564,018. As of December 31, 2020, the actual available replacement fund balance was \$905,605. The study recommends an annual member contribution of \$183,000. The Association's 2021 budget includes a reserve contribution of \$183,000.

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, 2020, 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 monthly assessments to fund the Association's operating activities 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 are 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 the funds are expended for their designated purpose. 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, 2020

NOTE 6 - ASSESSMENTS RECEIVABLE

Assessments receivable represent assessments and other fees due from members and are stated at the amounts expected to be collected. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are thirty days or more delinquent. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$5,034 and \$2,513, respectively.

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

NOTE 7 - PREPAID/DEFERRED ASSESSMENTS

The Association recognizes revenue from members as the related performance obligations are satisfied. Prepaid/deferred assessments are recorded when the Association receives payment in advance of the satisfaction of performance obligations. The total column balances of prepaid/deferred assessments as of the beginning and end of the year are \$1,250,588 and \$1,051,869, respectively.

NOTE 8 - 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, 2020, the Association had approximately \$328,000 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 9 - 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 10 - CONTINGENCY

In March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen that may adversely affect the Association. However, the financial impact, if any, cannot be reasonably estimated at this time.

PARK PASEO HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF DECEMBER 31, 2020
(UNAUDITED)

A study was conducted in September 2020, 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 2.5%, scheduled annual contribution increase of 2%, and an investment rate of 1.5% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$1,564,018. As of December 31, 2020, the actual available replacement fund balance was \$905,605. The study recommends an annual member contribution of \$183,000. The Association's 2021 budget includes a reserve contribution of \$183,000.

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	\$ 19,394
Roofs	2-28	74,374
Painting	0-6	37,533
Fencing	0-19	235,365
Lighting	0-23	171,305
Clubhouse	0-23	332,773
Main Pool	0-20	783,055
Prosa Pool	0-23	139,717
Tennis	0-11	85,802
Park Areas	0-10	209,075
Landscaping	0-7	153,720
Grounds	23	39,350
Total		<u>\$ 2,281,463</u>