



March 27, 2017

RE: North Rosedale Community Association
Audit Report

Dear North Rosedale Community Association Homeowner:

Enclosed, please find a copy of the North Rosedale Community Association year end report as of December 31, 2016. This is being distributed to you in accordance with California Civil Code 5305, which states in part; "a review of the financial statement of the association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year".

This report shall be distributed annually to each member of the association within one hundred and twenty (120) days after each accounting year end. The year end for the North Rosedale Community Association is December 31st.

Please take a few moments of your time to review the enclosed as it outlines the financial condition of your association. This report was prepared by the independent firm of Newman and Associates, Inc., CPA. It is recommended that you retain this document with your permanent property records.

Upon your receipt and review of the enclosed, should you have any questions, please do not hesitate to contact the undersigned at (949) 838-3277.

Sincerely,

At the Direction of the Board of Directors,
North Rosedale Community Association

Gloria Vizzini

Gloria Vizzini, CMCA, AMS
District Manager

Enclosure

**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**



**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

TABLE OF CONTENTS

Independent Auditor's Report	1
Balance Sheet.....	2
Statement of Revenues and Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to Financial Statements	5-7
Supplementary Information	8



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Independent Auditor's Report

To the Board of Directors of North Rosedale Community Association

We have audited the accompanying financial statements of North Rosedale Community Association (the "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 North Rosedale Community Association as of December 31, 2016, and 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

Our audit was conducted for the purpose of expressing an opinion on the basic financial statements. No procedures have been performed to determine the adequacy of funds designated for future repairs and replacements (Note 4), because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 8 be presented to supplement the basic financial statements. Such information, although not a 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 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.

Newman & Associates, Inc

Newman and Associates, Inc.
An Accountancy Corporation
Carlsbad, California
January 23, 2017

**NORTH ROSEDALE COMMUNITY ASSOCIATION
BALANCE SHEET
December 31, 2016**

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 606,717	\$ 721,193	\$ 1,327,910
Investments	500,000	870,000	1,370,000
Assessments receivable	26,221		26,221
Other receivables	152,066		152,066
Allowance for doubtful accounts	(135,044)		(135,044)
Interest receivable	1,015	816	1,831
Prepaid insurance	729		729
Total assets	\$ 1,151,704	\$ 1,592,009	\$ 2,743,713
Liabilities			
Accounts payable	\$ 48,356	\$ -	\$ 48,356
Prepaid assessments	52,757		52,757
Deposits	94,750		94,750
Income taxes payable	2,103		2,103
Total liabilities	197,966	-	197,966
Fund balances	953,738	1,592,009	2,545,747
Total liabilities and fund balances	\$ 1,151,704	\$ 1,592,009	\$ 2,743,713

**NORTH ROSEDALE COMMUNITY ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
For the Year Ended December 31, 2016**

	Operating Fund	Replacement Fund	Total
Revenues			
Owners' assessments	\$ 599,659	\$ 210,432	\$ 810,091
Mapleton cost center assessments	75,444	30,324	105,768
Shared costs assessments	195,798	75,132	270,930
Interest	3,751	6,231	9,982
Clubhouse rental	9,000		9,000
Other member income	110,575		110,575
Total revenues	<u>994,227</u>	<u>322,119</u>	<u>1,316,346</u>
Expenses			
Utilities			
Electricity and gas	44,277		44,277
Water and sewer	104,661		104,661
Trash removal	2,242		2,242
Telephone and cable	3,189		3,189
	<u>154,369</u>	<u>-</u>	<u>154,369</u>
Maintenance			
Landscape and irrigation	274,509		274,509
Tree trimming			-
Common area repairs and maintenance	14,951		14,951
Lighting service and maintenance	9,667		9,667
Pool and spa	20,959		20,959
Pest control	1,257		1,257
Janitorial	21,638		21,638
Street sweeping	1,540		1,540
Patrol and security	35,400		35,400
Fitness equipment maintenance	5,249		5,249
	<u>385,170</u>	<u>-</u>	<u>385,170</u>
Administrative			
Insurance	12,406		12,406
Management	61,695		61,695
Administrative expense	29,048		29,048
Legal and professional	5,398		5,398
Collection costs	12,581		12,581
Social committee	9,107		9,107
Staffing	32,236		32,236
Architectural Review	6,350		6,350
Bad debt	72,311		72,311
Licenses and permits	389		389
Income tax expense	2,252		2,252
	<u>243,773</u>	<u>-</u>	<u>243,773</u>
Major repairs and replacements		15,937	15,937
Total expenses	<u>783,312</u>	<u>15,937</u>	<u>799,249</u>
Excess(deficit) of revenues over(under) expenses	210,915	306,182	517,097
Beginning fund balances	857,950	1,170,700	2,028,650
Interfund transfers, net	(115,127)	115,127	-
Ending fund balances	<u>\$ 953,738</u>	<u>\$ 1,592,009</u>	<u>\$ 2,545,747</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

NORTH ROSEDALE COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ 210,915	\$ 306,182	\$ 517,097
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities			
Assessments receivable	(3,852)	-	(3,852)
Interest receivable	(1,015)	(816)	(1,831)
Allowance for doubtful accounts	72,126	-	72,126
Other receivables	(83,975)	-	(83,975)
Prepaid insurance	250	-	250
Prepaid income taxes	329	-	329
Accounts payable	9,565	(22,437)	(12,872)
Income taxes payable	2,093	-	2,093
Prepaid assessments	9,860	-	9,860
Deposits	2,500	-	2,500
Net cash provided(used) by operating activities	<u>7,881</u>	<u>(23,253)</u>	<u>(15,372)</u>
Cash provided(used) by investing activities:			
Change in investments, net	-	(188,121)	(188,121)
Net cash flows from investing activities	<u>-</u>	<u>(188,121)</u>	<u>(188,121)</u>
Cash provided(used) by financing activities:			
Interfund transfers, net	(115,127)	115,127	-
Interfund borrowings, net	(137)	137	-
Net cash flows from financing activities	<u>(115,264)</u>	<u>115,264</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	103,532	210,072	313,604
Cash and cash equivalents at beginning of year	503,185	511,121	1,014,306
Cash and cash equivalents at end of year	<u>\$ 606,717</u>	<u>\$ 721,193</u>	<u>\$ 1,327,910</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			<u>\$ -</u>
Interest paid			<u>\$ -</u>

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

1. Organization

North Rosedale Community Association (the "Association") was incorporated on January 7, 2005 as a mutual benefit corporation under the laws of California, for the purposes of maintaining and preserving common property. The Association consists of 607 residential homes and is located in Azusa, California. At buildout, it is anticipated the development will consist of 689 residential homes.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Association maintains its financial records on the modified accrual basis of accounting, which recognizes revenues when earned and expenses when paid. Adjustments at the end of the fiscal year result in these financial statements being presented on the full accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Fund Accounting

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 require signatures from the board of directors or officers as specified by California Civil Code, and generally may be made only for designated purposes.

Investment Income

The board's policy is to account for interest income in the fund in which it is earned. The Association pays related income taxes from the operating fund.

Capital Assets and Depreciation Policy

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

Subsequent Events

Subsequent events have been evaluated through January 23, 2017, which is the date the financial statements were available to be issued.

3. Assessments and Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations. The board of directors conducted a study in 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on this study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

Replacement fund expenditures were as follows:

Tree trimming	\$ 9,553
Pool and spa	8,400
Gym equipment	6,494
Park area	7,872
Furnishings and equipment	3,201
Lighting	1,306
Furnishings and equipment	(20,889)
	<u>\$ 15,937</u>

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

5. Income Taxes

The Association elected to file its Federal income tax returns as a homeowners' association under Internal Revenue Code Section 528. For its California income tax return, the Association qualifies for tax exempt status as a homeowners' association under California Revenue and Taxation code section 23701(t). For both Federal and California returns, the Association is generally taxed on income not related to membership dues and assessments, such as interest income and non-member income. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively.

**NORTH ROSEDALE COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended December 31, 2016
(Unaudited)**

The Association's board of directors, in conjunction with a reserve study expert, conducted the latest reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study.

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

Study Component	Estimated remaining useful lives	Estimated current replacement costs	Study recommended annual funding requirement	Study recommended fund balance
<u>Master</u>				
Coat, paint and stain	0-0	\$ 49,218	10,992	\$ 49,218
Equipment	4-18	340,318	24,072	150,215
Fencing	14-23	356,716	15,192	71,484
Pavement	0-18	161,579	15,876	24,347
Restoration	0-13	1,429,978	153,684	715,460
Subtotal		\$ 2,337,809	\$ 219,816	\$ 1,010,724
<u>Mapleton</u>				
Coat, paint and stain	0-2	\$ 18,727	\$ 4,092	\$ 13,417
Equipment	2-18	85,515	4,428	28,928
Fencing	15-30	106,758	3,912	35,008
Pavement	0-15	221,434	13,464	72,254
Restoration	0-2	13,619	6,276	7,866
Subtotal		\$ 446,053	\$ 32,172	\$ 157,473
<u>The Resort</u>				
Coat, paint and stain	0-4	\$ 46,734	\$ 6,624	\$ 36,062
Equipment	0-29	501,774	31,956	172,313
Fencing	9-19	64,164	3,228	20,329
Pavement	0-19	33,635	2,232	12,616
Pool and spa	0-19	220,546	16,944	103,508
Restoration	0-44	252,095	14,628	72,262
Roofs	24-24	73,684	2,340	14,737
Subtotal		\$ 1,192,632	\$ 77,952	\$ 431,827
Grand Total		\$ 3,976,494	\$ 329,940	\$ 1,600,024
Replacement fund balance at December 31, 2016				\$ 1,592,009
Other Assumptions:				
Interest rate				1.00%
Inflation rate				3.00%