



March 26, 2020

RE: North Rosedale Community Association
2019 Audit Report

Dear North Rosedale Community Association Homeowner:

Enclosed, please find a copy of the North Rosedale year-end report as of December 31, 2019. 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 Certified Public Accountant, PC, C.P.A. 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 (909) 297-2551.

Sincerely,

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

Gloria Vizzini

Gloria Vizzini
District Manager

Enclosure

**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**



NEWMAN
Certified Public Accountant, PC

**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

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NEWMAN
Certified Public Accountant, PC

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, 2019, 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, 2019, 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 on Future Major Repairs and Replacements

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 Certified Public Accountant, PC.

Newman Certified Public Accountant, PC
Carlsbad, California
March 7, 2020

NORTH ROSEDALE COMMUNITY ASSOCIATION
BALANCE SHEET
December 31, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 339,483	\$ 585,438	\$ 924,921
Investments	1,034,368	1,862,387	2,896,755
Assessments receivable	33,390		33,390
Other receivables	315,902		315,902
Allowance for doubtful accounts	(296,385)		(296,385)
Interest receivable	5,426	12,836	18,262
Prepaid insurance	4,453		4,453
Due from (to) fund	1,245	(1,245)	-
Total assets	<u>\$ 1,437,882</u>	<u>\$ 2,459,416</u>	<u>\$ 3,897,298</u>
Liabilities			
Accounts payable	\$ 13,676	\$ 12,460	\$ 26,136
Prepaid assessments	35,742		35,742
Deposits	75,252		75,252
Income taxes payable	10,166		10,166
Contract liabilities (Assessments received in advance - replacement fund)		2,446,956	2,446,956
Total liabilities	134,836	2,459,416	2,594,252
Fund balances	<u>1,303,046</u>		<u>1,303,046</u>
Total liabilities and fund balances	<u>\$ 1,437,882</u>	<u>\$ 2,459,416</u>	<u>\$ 3,897,298</u>

**NORTH ROSEDALE COMMUNITY ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
For the Year Ended December 31, 2019**

	Operating Fund	Replacement Fund	Total
Revenues			
Owners' assessments	\$ 674,200	\$ -	\$ 674,200
Mapleton cost center assessments	102,768	3,000	105,768
Shared costs assessments	242,122	91,473	333,595
Interest	22,391	47,222	69,613
Clubhouse rental	10,485		10,485
Other member income	84,196		84,196
Total revenues	<u>1,136,162</u>	<u>141,695</u>	<u>1,277,857</u>
Expenses			
Utilities			
Electricity and gas	57,796		57,796
Water and sewer	185,602		185,602
Trash removal	2,650		2,650
Telephone and cable	3,380		3,380
	<u>249,428</u>	<u>-</u>	<u>249,428</u>
Maintenance			
Landscape and irrigation	410,831	8,737	419,568
Common area repairs and maintenance	18,031	33,350	51,381
Lighting service and maintenance	13,211		13,211
Pool and spa	33,880	13,722	47,602
Pest control	11,080		11,080
Janitorial	25,117		25,117
Street sweeping	2,000	3,255	5,255
Patrol and security	37,143		37,143
Fitness equipment maintenance	4,518		4,518
Painting		75,053	75,053
Fences and walls		7,578	7,578
	<u>555,811</u>	<u>141,695</u>	<u>697,506</u>
Administrative			
Insurance	12,645		12,645
Management	76,344		76,344
Administrative expense	36,642		36,642
Legal and professional	17,599		17,599
Collection costs	12,115		12,115
Social committee	10,069		10,069
Staffing	33,053		33,053
Architectural Review	5,775		5,775
Bad debt	49,655		49,655
Licenses and permits	1,603		1,603
Income tax expense	23,576		23,576
	<u>279,076</u>	<u>-</u>	<u>279,076</u>
Total expenses	<u>1,084,315</u>	<u>141,695</u>	<u>1,226,010</u>
Excess(deficit) of revenues over(under) expenses	51,847	-	51,847
Beginning fund balances	1,251,199	-	1,251,199
Ending fund balances	<u>\$ 1,303,046</u>	<u>\$ -</u>	<u>\$ 1,303,046</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, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ 51,847	\$ -	\$ 51,847
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities			
Assessments receivable	(8,044)	-	(8,044)
Interest receivable	240	(787)	(547)
Allowance for doubtful accounts	26,826	-	26,826
Other receivables	(14,612)	-	(14,612)
Prepaid insurance	(3,690)	-	(3,690)
Accounts payable	(17,854)	12,460	(5,394)
Prepaid assessments	4,219	-	4,219
Income taxes payable	2,067	-	2,067
Contract liabilities (Assessments received in advance - replacement fund)	-	307,239	307,239
Deposits	(14,000)	-	(14,000)
Net cash provided(used) by operating activities	<u>(24,848)</u>	<u>318,912</u>	<u>294,064</u>
Cash provided(used) by investing activities:			
Change in investments	(34,551)	(216,622)	(251,173)
Net cash flows from investing activities	<u>(34,551)</u>	<u>(216,622)</u>	<u>(251,173)</u>
Cash provided(used) by financing activities:			
Interfund borrowings	(1,245)	1,245	-
Net cash flows from financing activities	<u>(1,245)</u>	<u>1,245</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	(8,797)	103,535	94,738
Cash and cash equivalents at beginning of year	348,280	481,903	830,183
Cash and cash equivalents at end of year	<u>\$ 339,483</u>	<u>\$ 585,438</u>	<u>\$ 924,921</u>

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

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

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 691 residential homes.

2. Summary of Significant Accounting Policies

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's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – The fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – The fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, 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 these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. After the Board of Directors

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

The Association recorded an allowance of doubtful account \$296,385 to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of satisfaction of performance obligations related to replacement reserve assessments.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

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. Significant personal property assets are capitalized and depreciated over their estimated lives using straight-line depreciation.

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.

Subsequent Events

Subsequent events have been evaluated through March 5, 2020, which is the date the financial statements were available to be issued.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At December 31, 2019, \$227,194 was exposed to risk.

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

3. 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 reserve study 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 or 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.

3. FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate – Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods and services.

The Association adopted the requirements of new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to the beginning balance. The Association applied the new guidance using the practical expedient in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the Association's accounting policies for assessment revenue and contract liabilities related to the replacement fund, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to the fund balance as of January 1, 2019:

Fund balance, as previously reported, at January 1, 2019	\$ 3,390,916
Adjustment	<u>(2,139,717)</u>
Fund balance, adjusted , at January 1, 2019	<u>\$ 1,251,199</u>

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

The effect of the adoption is a decrease in 2019 replacement fund assessments and a recording of a contract liability (assessments received in advance – replacement fund) at December 31, 2019. The Association has no customer contract modifications that had an effect on the Association’s transition to the new guidance.

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As Reported</u>
Liabilities:			
Contract liabilities (Assessments received in advance - replacement reserve)	\$ -	\$ 2,446,956	\$ 2,446,956
Total liabilities	\$ -	\$ 2,446,956	\$ 2,446,956
Fund Balance:			
Ending fund balance	\$ 3,750,002	\$ (2,446,956)	\$ 1,303,046

The modified retrospective method requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts that would have been reported</u>	<u>Effects of applying new guidance</u>	<u>As reported</u>
Revenue:			
Regular assessments	\$ 1,400,645	\$ (287,082)	\$ 1,113,363
Excess of revenues over expenses	\$ 338,929	\$ (287,082)	\$ 51,847
Cash Flows:			
Excess of revenues over expenses	\$ 338,929	\$ (287,082)	\$ 51,847
Increase in contract liabilities (Assessments received in advance - replacement reserves)	-	\$ (287,082)	\$ (287,082)

4. 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
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**NORTH ROSEDALE COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended December 31, 2019
(Unaudited)**

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated April 24, 2019 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 at the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

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
<u>Master</u>		
Asphalt	0-20	\$ 136,824
Paint	0	102,894
Fences and walls	7-15	454,337
Lighting	5-12	6,595
Mailboxes	3-14	127,477
Irrigation	3-15	548,205
Landscape	0-7	1,285,585
Contingency		
Subtotal		<u>\$ 2,661,917</u>
<u>Cost Center</u>		
Asphalt	2-13	\$ 198,053
Paint	0	27,111
Fences and walls	7-17	128,170
Lighting	7-14	65,508
Mailboxes	2-9	17,946
Common area	7-12	21,275
Irrigation	3-15	40,295
Landscape	0-1	27,790
Contingency		
Subtotal		<u>\$ 526,148</u>
<u>The Resort</u>		
Parking - asphalt	1-16	\$ 46,198
Roofs	21	70,643
Paint	0	41,929
Fences and walls	6-16	67,484
Lighting	3-18	106,583
Pool and spa	1-16	283,872
Cabana	0-26	49,737
Patio area	0-26	49,299
Park area	3-11	121,201
Clubhouse	1-26	288,082
Signs	9-26	11,918
Irrigation	3-21	17,891
Landscape	0-1	14,194
Contingency		
Subtotal		<u>\$ 1,169,031</u>
Grand Total		<u><u>\$ 4,357,096</u></u>