



April 7, 2021

RE: North Rosedale Community Association
2020 Audit Report

Dear North Rosedale Community Association Homeowner:

Enclosed, please find a copy of the North Rosedale year-end report as of December 31, 2020. 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, CMCA, AMS, PCAM

Director of Community Management

Enclosure

**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**



NEWMAN
Certified Public Accountant, PC

**NORTH ROSEDALE COMMUNITY ASSOCIATION
FINANCIAL STATEMENTS
For the Year Ended December 31, 2020**

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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, 2020, 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, 2020, 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 5), 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 27, 2021

NORTH ROSEDALE COMMUNITY ASSOCIATION
BALANCE SHEET
December 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 520,070	\$ 477,057	\$ 997,127
Investments	1,033,456	2,270,301	3,303,757
Assessments receivable	33,642		33,642
Other receivables	325,283		325,283
Allowance for doubtful accounts	(312,090)		(312,090)
Interest receivable	3,578	8,454	12,032
Prepaid insurance	748		748
Prepaid taxes	909		909
Due from (to) fund	(4,544)	4,544	-
Total assets	<u>\$ 1,601,052</u>	<u>\$ 2,760,356</u>	<u>\$ 4,361,408</u>
Liabilities			
Accounts payable	\$ 61,249	\$ 3,750	\$ 64,999
Prepaid assessments	30,268		30,268
Deposits	18,250		18,250
Income taxes payable	1,461		1,461
Contract liabilities (Assessments received in advance - replacement fund)		2,756,606	2,756,606
Total liabilities	<u>111,228</u>	<u>2,760,356</u>	<u>2,871,584</u>
Fund balances	<u>1,489,824</u>		<u>1,489,824</u>
Total liabilities and fund balances	<u>\$ 1,601,052</u>	<u>\$ 2,760,356</u>	<u>\$ 4,361,408</u>

**NORTH ROSEDALE COMMUNITY ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
For the Year Ended December 31, 2020**

	Operating Fund	Replacement Fund	Total
Revenues			
Owners' assessments	\$ 671,201	\$ 112,702	\$ 783,903
Mapleton cost center assessments	58,464	-	58,464
Shared costs assessments	257,575	-	257,575
Interest	21,114	45,880	66,994
Clubhouse rental	1,450		1,450
Other member income	129,025		129,025
Total revenues	<u>1,138,829</u>	<u>158,582</u>	<u>1,297,411</u>
Expenses			
Utilities			
Electricity and gas	35,436		35,436
Water and sewer	183,260		183,260
Trash removal	3,078		3,078
Telephone and cable	4,374		4,374
	<u>226,148</u>	<u>-</u>	<u>226,148</u>
Maintenance			
Landscape, irrigation and tree trimming	422,055	25,190	447,245
Common area repairs and maintenance	17,429	30,111	47,540
Building maintenance		30,484	30,484
Lighting service and maintenance	11,818	5,298	17,116
Pool and spa	35,444		35,444
Pest control	13,670		13,670
Janitorial	24,233		24,233
Street sweeping	1,830	10,500	12,330
Patrol and security	44,416		44,416
Fitness equipment maintenance	3,582	21,641	25,223
Flooring		11,558	11,558
Fences and walls		23,800	23,800
	<u>574,477</u>	<u>158,582</u>	<u>733,059</u>
Administrative			
Insurance	12,911		12,911
Management	75,740		75,740
Administrative expense	39,235		39,235
Legal and professional	7,012		7,012
Collection costs	13,300		13,300
Staffing	11,530		11,530
Bad debt	15,848		15,848
Income tax expense	22,602		22,602
	<u>198,178</u>	<u>-</u>	<u>198,178</u>
Total expenses	<u>998,803</u>	<u>158,582</u>	<u>1,157,385</u>
Excess(deficit) of revenues over(under) expenses	140,026	-	140,026
Beginning fund balances	1,303,046	-	1,303,046
Prior period adjustment	46,752		46,752
Ending fund balances	<u>\$ 1,489,824</u>	<u>\$ -</u>	<u>\$ 1,489,824</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, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ 140,026	\$ -	\$ 140,026
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities			
Assessments receivable	(252)	-	(252)
Interest receivable	1,848	4,382	6,230
Allowance for doubtful accounts	15,705	-	15,705
Other receivables	(9,381)	-	(9,381)
Prepaid insurance	3,705	-	3,705
Prepaid taxes	(909)	-	(909)
Accounts payable	47,573	(8,710)	38,863
Prepaid assessments	(5,474)	-	(5,474)
Income taxes payable	(8,705)	-	(8,705)
Contract liabilities (Assessments received in advance - replacement fund)	-	309,650	309,650
Prior period adjustment	46,752	-	46,752
Deposits	(57,002)	-	(57,002)
Net cash provided(used) by operating activities	<u>33,860</u>	<u>305,322</u>	<u>339,182</u>
Cash provided(used) by investing activities:			
Change in investments	912	(407,914)	(407,002)
Net cash flows from investing activities	<u>912</u>	<u>(407,914)</u>	<u>(407,002)</u>
Cash provided(used) by financing activities:			
Interfund borrowings	5,789	(5,789)	-
Net cash flows from financing activities	<u>5,789</u>	<u>(5,789)</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	180,587	(108,381)	72,206
Cash and cash equivalents at beginning of year	339,483	585,438	924,921
Cash and cash equivalents at end of year	<u>\$ 520,070</u>	<u>\$ 477,057</u>	<u>\$ 997,127</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			<u>\$ 22,050</u>
Interest paid			<u>\$ -</u>

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

1. Organization

North Rosedale Community Association (the "Association") was incorporated on January 7, 2005 as a nonprofit mutual benefit corporation under the laws of California for the purposes of maintaining and preserving common property. The Association consists of 691 residential homes and is located in Azusa, California.

2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 27, 2021, the date that the financial statements were available to be issued.

3. 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 revenue 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.

Members Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses 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 owners 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. The balances of assessments receivable as of the beginning and end of the year are \$349,292 and \$358,925, respectively. After the Board of Directors 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 \$312,090 to reflect an estimate of accounts that may not be collectible, which includes accounts receivable greater than 90 days old.

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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.

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, 2020, \$402,365 was exposed to risk.

4. Income Taxes

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Association has met IRC Section 528 eligibility requirements and has chosen to file Form 1120-H for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 528 requires that the Association separates all of its income and expense activity between three categories: exempt function, nonexempt function and capital. Taxable income includes net nonexempt function income, such as interest and other nonmember sourced income. In the determination of net taxable income, certain expenses were allocated to offset a portion of the Association's taxable income. The Form 1120-H tax rate is 30%.

The Association is also required to file California's Form 100 income tax return subject to California Revenue & Taxation Code sections 24405 and 24437 for its state income tax return. The Form 100 tax rate is 8.84%.

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

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

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. 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. There are currently no audits in progress for any tax period.

5. 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 operating fund expenses. 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 member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

6. FASB ASC 606 New Accounting Guidance Implementation

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (Assessments received - in advance - replacement fund) as of January 1, 2020	\$ 2,446,956
Assessments budgeted for Replacement Fund	422,352
Recognized Replacement Fund assessments	(112,702)
Adjustment and transfer to/from contract liabilities	-
Contract liabilities (Assessments received - in advance - replacement fund) as of December 31, 2020	<u>\$ 2,756,606</u>

NORTH ROSEDALE COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2020

7. COVID-19

The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. In the United States, the federal and state governments have implemented enhanced screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus began causing business disruptions domestically beginning in 2019 that are anticipated to continue for the foreseeable future. The extent of the impact of the COVID-19 pandemic on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of the COVID-19 pandemic on overall demand for the Association's services and the ability of owners to pay assessments, all of which are highly uncertain and cannot be predicted.

8. Prior Period Adjustment

An adjustment has been recorded to remove unclaimed deposits totaling \$46,752 from the balance sheet. The correction has no effect on the results of current year's operations.

9. Legal

During the year, the Association engaged legal counsel on various ongoing legal matters, which have either been resolved, or at the date of this report an estimate of future costs is unknown.

NORTH ROSEDALE COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended December 31, 2020
(Unaudited)

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated May 27, 2020 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.

<u>Study Component</u>	<u>Estimated remaining useful lives</u>	<u>Estimated current replacement costs</u>
<u>Master</u>		
Asphalt	0-19	\$ 155,809
Paint	0-2	104,033
Fences and walls	6-14	514,668
Lighting	4-11	6,706
Mailboxes	2-13	129,269
Irrigation	2-14	562,012
Landscape	0-6	1,370,966
Subtotal		<u>\$ 2,843,463</u>
<u>Cost Center</u>		
Asphalt	0-12	\$ 231,869
Paint	0-3	27,447
Fences and walls	6-16	141,230
Lighting	6-13	67,740
Mailboxes	1-8	18,086
Common area	6-11	21,490
Irrigation	2-14	41,495
Landscape	0-2	28,310
Subtotal		<u>\$ 577,667</u>
<u>The Resort</u>		
Parking - asphalt	0-15	\$ 47,029
Roofs	20-20	69,105
Paint	0-7	39,111
Fences and walls	5-15	74,408
Lighting	2-17	107,579
Pool and spa	0-15	287,097
Cabana	0-25	52,702
Patio area	5-25	46,154
Park area	2-10	123,927
Clubhouse	0-25	307,766
Signs	8-25	15,955
Irrigation	2-20	16,999
Landscape	0-0	14,524
Subtotal		<u>\$ 1,202,356</u>
Grand Total		<u><u>\$ 4,623,486</u></u>
Other Assumptions:		
Interest rate		<u>1.00%</u>
Inflation rate		<u>2.50%</u>