

Financial Statement Review (Required Civil Code Sec. 4525)
REFUGIO HEIGHTS HOA

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Certified Public Accountants, PC

Refugio Heights Homeowners Association

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019

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Refugio Heights Homeowners Association

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Van Sloten & Laranang
Certified Public Accountants, PC

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Refugio Heights Homeowners Association

We have reviewed the accompanying financial statements of Refugio Heights Homeowners 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Refugio Heights Homeowners Association's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Refugio Heights Homeowners Association's 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 the financial statements that are free from material misstatement due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 9 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, 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 not audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

 Van Sloten & Laranang CPAs, PC

Van Sloten & Laranang CPAs, PC

Pleasanton, CA

April 1, 2020

Refugio Heights Homeowners Association

Balance Sheet

December 31, 2019

	Operating Funds	Settlement Funds	Replacement Funds	Total Funds
ASSETS				
Cash and cash equivalents	\$ 50,499	1,524	254,554	306,577
Assessments receivable (net allow. \$31,272)	3,023			3,023
Investments in certificates of deposit		191,000	408,000	599,000
Interest receivable		101	6,601	6,702
Prepaid insurance	2,624			2,624
Total Assets	<u>56,146</u>	<u>\$ 192,625</u>	<u>\$ 669,155</u>	<u>917,926</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	2,233			2,233
Assessments received in advance	6,049			6,049
Income tax payable		809	2,954	3,763
Due to replacement/due from operating fund	2,553	(446)	(2,107)	-
Contract liabilities (Assess Received in Adv.)			668,308	668,308
Total Liabilities	10,835	363	669,155	680,353
Fund Balances	<u>45,311</u>	<u>192,262</u>	<u>-</u>	<u>237,573</u>
Total Liabilities and Fund Balances	<u>\$ 56,146</u>	<u>192,625</u>	<u>669,155</u>	<u>917,926</u>

SEE NOTES TO THE FINANCIAL STATEMENTS
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Refugio Heights Homeowners Association
Statement of Revenue and Expenses and Changes in Fund Balances
December 31, 2019

	Operating Funds	Settlement Funds	Replacement Funds	Total Funds
REVENUE:				
Regular assessments (Note B and Note H)	\$ 245,750		-	245,750
Late fees and penalties	2,022			2,022
Interest on savings (Note A-3)	609	3,483	12,724	16,816
Total Revenue	248,381	3,483	12,724	264,588
EXPENSES:				
Management	38,018			38,018
Insurance	9,608			9,608
Legal and accounting	10,729			10,729
Other administrative expenses	29,501			29,501
Gas and electricity	467			467
Water and sewer	23,774			23,774
Bad debts	272			272
Carson home assessments	4,920			4,920
Pest control	34,650			34,650
Landscape maintenance	91,490			91,490
Real estate tax	139			139
Capital expenditures			2,863	2,863
Other common are maintenance	32,435			32,435
Income taxes (Note D)	4,463			4,463
Total Expenses	280,466	-	2,863	283,329
Excess (deficiency) of revenue over expense	(32,085)	3,483	9,861	(18,741)
Beginning fund balance	77,396	188,779	618,847	885,022
Changes to fund balances				
To reclassify per FASB ASC 606			(9,861)	(9,861)
FASB ASC 606 adjustment - See Note H			(618,847)	(618,847)
Net total FASB ASC 606 adjustments	-	-	(628,708)	(628,708)
Ending fund balance	\$ 45,311	192,262	-	237,573

SEE NOTES TO THE FINANCIAL STATEMENTS
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Refugio Heights Homeowners Association

Statement of Cash Flows

December 31, 2019

	Operating Funds	Settlement Funds	Replacement Funds	Total Funds
Cash Flows From Operating Activities:				
Excess (deficiency) of revenue over expenses	(32,085)	3,483	9,861	(18,741)
Adjustments to reconcile net income to net cash provided by operating activities:				
(Increase) - Decrease in:				
Accounts receivable	1,314			1,314
Interest receivable		(101)	(6,601)	(6,702)
Prepaid insurance	4,359			4,359
Increase - (Decrease) in:				
Accounts payable	(1,722)			(1,722)
Assessments received in advance	288			288
Income tax payable		446	2,107	2,553
Contract liabilities			668,308	668,308
Net cash flows from operating activities	(27,846)	3,828	673,675	649,657
Cash Flows From Investing Activities:				
Purchase of certificates of deposit	-	(191,000)	(201,000)	(392,000)
Net cash flows from investing activities	-	(191,000)	(201,000)	(392,000)
Cash Flow from Financing Activities				
Due to/Due from Replacement Fund	2,553	(446)	(2,107)	-
To reclass as contract liabilities			(9,861)	(9,861)
FSAB ASC 606 adjustment - See Note H	-	-	(618,847)	(618,847)
Net cash flows from financing activities	2,553	(446)	(630,815)	(628,708)
Net increase (decrease) in cash and cash equivalents	(25,293)	(187,618)	(158,140)	(371,051)
Cash and cash equivalents at the beginning of the year	75,792	189,142	412,694	677,628
Cash and cash equivalents at the end of the year	50,499	1,524	254,554	306,577

SEE NOTES TO THE FINANCIAL STATEMENTS
SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Refugio Heights Homeowners Association
Notes To Financial Statements
December 31, 2019

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Organization

Refugio Heights Homeowners Association (the Association) was incorporated November 1, 2000, to provide for the orderly maintenance, preservation, and architectural control of the common areas within the development, which consists of 290 residential units located in the City of Hercules, California.

The Association derives its authority and responsibilities from its Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations, but major decisions are referred to the general association membership if required by the governing documents.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

(2) Funds

Since the Association is a not-for-profit organization, the accompanying financial statements have been prepared using a fund method of accounting. Under this method of accounting, funds are separated into two categories, operating funds and replacement funds. Operating funds are those whose disposition is at the discretion of the Board of Directors and are generally used for regular operating expenses. Replacement funds are those funds that have been limited to specific purposes by the membership or the Board of Directors. The settlement fund is used to pay for repairs, maintenance and/or other expenses associated with the Carson hillside area.

(3) Interest Earned

It is the policy of the Board of Directors that interest earned on restricted savings is restricted and is transferred to the replacement fund when earned.

(4) Statement of Cash Flow Information

For purposes of the Statement of Cash Flows, the Association considers all short-term investments with maturity at date of purchase of three months or less to be cash equivalents.

(5) Concentration of Credit Risk

Financial instruments that potentially expose the Association to concentrations of credit risk consists of cash. Cash is maintained at two financial institutions and credit exposure is limited to these institutions.

(6) Capitalization Policy and Depreciation

The Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. This policy of non-capitalization is widely followed in the homeowners association industry as all beneficial rights of ownership belong to the unit owners and not to the Association.

Replacements and improvements to the real property are not capitalized for the same reasons described above. They are instead charged directly to either operating or restricted funds in the period they are incurred

Refugio Heights Homeowners Association
Notes To Financial Statements
December 31, 2019

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-Continued

(7) 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 at the balance sheet date represent fees due from unit owners. The Association's Declaration provides 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.

An allowance for bad debts expense has been recognized for potential doubtful accounts receivable as of December 31, 2019.

(8) 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 the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$0 and \$668,308 respectively.

(9) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 from those estimates.

(10) Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.

(B) - REGULAR ASSESSMENTS

During the fiscal year ended December 31, 2019, regular annual assessments were payable to the Association in monthly installments of \$82 per unit.

The annual budget and owners' assessments are determined by the Board of Directors and the homeowners. Annual budgets are approved and assessments are divided between the operating fund to meet normal operating costs and contributions to the replacement funding program.

Delinquent assessments may be secured by a lien on the property against which the assessments are made, and the Association has the power to foreclose the property of any owner who fails to pay assessments.

It is the Association policy that any excess operating funds at the end of a fiscal year be applied to the following year's assessment.

Refugio Heights Homeowners Association
Notes To Financial Statements
December 31, 2019

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM

Restricted funds represent amounts designated for specific uses by the membership or Board of Directors; generally these funds are set-aside in interest bearing accounts to be retained for the designated purpose. Restricted replacement funds are amounts to be spent on future repair and replacement of selected Association common areas.

A long-term, formal funding program is one that is based on a study that identifies specific common area components such as roofs, streets, paint, decks, etc., the expected replacement costs and expected remaining service lives of each, and provides a plan for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

An independent formal study to determine the adequacy of the current funding program for the replacement of selected Association common area components was conducted by Kelleher Reserves 2018. The 2020 budget, which was approved by the Board of Directors in November 2019, incorporates the current funding requirements determined by the study. 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 future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

(D) - INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2019, the Association was taxed as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

Income tax expense at December 31, 2019, was \$4,463. During the year ending December 31, 2019, the Association paid \$700 in cash for income taxes.

As of December 31, 2019, the tax returns of the Association are no longer subject to income tax examination by federal authorities for years ending December 31, 2016 and before and by state authorities for years ending December 31, 2015 and before.

In evaluating the Association's tax provisions and accruals, the association believes that its estimates are appropriate based on current facts and circumstances.

(E) - UNINSURED CASH BALANCES

The Association has interest bearing accounts in various commercial banks. On December 31, 2019, the Association's deposits exceed federal depository insurance coverage by approximately \$0. The FDIC limit is \$250,000.

(F) - SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 1, 2020 the date on which the financial statements were available to be issued. No items noted that requires disclosure to the financial statements.

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
(CONTINUED)

Refugio Heights Homeowners Association
Notes To Financial Statements
December 31, 2019

(G) - LITIGATION

In 2002 the Association, the Association's insurance carrier and three homeowners reached a settlement agreement under which the Association obtained approximately \$220,000 in cash and title to three parcels in exchange for assuming the outstanding mortgage balances on two of the parcels.

The outstanding mortgage balances for the two properties were refinanced. The two properties were cleaned and sold. The proceeds were utilized to pay-off the outstanding mortgages with the remaining funds set aside for slide mitigation expenditures. The homeowners of the two properties abandoned their properties prior to 2010. The City demolished their homes and these unbuildable parcels remain as vacant parcels.

A lawsuit relating to a fourth property was settled in 2010 for \$500,000, the property deeded to the Association and the home was demolished.

A homeowner to a fifth property abandoned their home in 2010, the bank deeded the property to the Association and the home was demolished.

The three unbuildable parcels that the Association holds title remain as common area open space.

(H) - 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 or 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 or services.

The Association adopted the new guidance as of December 31, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The association applied new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of December 31, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities (assessments received in advance-replacement fund), as previously described.

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

Fund Balance, as previously reported, at January 1, 2019.	\$ 885,022
Adjustment	<u>(618,847)</u>
Fund balance, as adjusted, at January 1, 2019	<u>\$ 266,175</u>

The effect of the adoption is a decrease in 2019 assessments by \$39,600 and recording of contract liability at December 31, 2019 of \$668,308. The Association has no customer contract modifications that had no effect on the Association's transition to the new guidance.

The modified retrospective method of transition require 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

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Refugio Heights Homeowners Association

H-FASB ASC 606 New Accounting Guidance Implementation

December 31, 2019

	Amounts that would have been reported	Effects of Applying New Guidance	As Reported
LIABILITIES AND FUND BALANCES:			
Contract Liabilities	-	668,308	668,308
Total Liabilities	12,045	668,308	680,353
Fund Balance			
Ending Fund balance	905,881	(668,308)	237,573

The following are the line items from the statement of revenues, expenses and changes in fund balances and the statement of cash flows for the year ended December 31, 2019. that were affected, the amounts that would have been reported under former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts that would have been reported	Effects of Applying New Guidance	As Reported
Revenue			
Regular assessments			
Operating assessments	\$ 245,750	-	245,750
Reserve/Replacement assessments	39,600	(39,600)	-
Net total regular assessments	285,350	(39,600)	245,750
Excess (deficit) of revenues over expenses	(32,085)	13,344	(18,741)
Cash Flows			
Excess of revenues over expenses	(32,085)	13,344	(18,741)
Increase in contract liabilities	\$ -	668,308	668,308

SEE NOTES TO FINANCIAL STATEMENTS

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Refugio Heights Homeowners Association
 Supplementary Information On Future Major Repairs And Replacements (Unaudited)
 December 31, 2019

Kelleher Reserves conducted a study in 2018, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future replacement costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 3% inflation factor between the date of the study and the date that the components will require repair and replacement. A 30% after tax interest rate has been applied to the cash flow.

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

<u>Components</u>	<u>Estimated Remaining Lives Yrs</u>	<u>Estimated Useful Lives Yrs</u>	<u>Estimated Current Replacement Costs</u>
Concrete	0	5	\$ 9,019
Painting, Exterior	1	8	120,570
Fencing	0	30	165,112
Mailboxes	12	20	52,200
Irrigation	0	5-25	21,675
Erosion Control	0	20	350,000
Total			<u>\$ 718,576</u>

The Association uses the cash flow method of funding the replacement fund. Under the cash flow method, the funding for each individual component is not separately calculated. The contract liability balance at December 31, 2019 is \$668,308 with expected contributions of \$39,600 for the year ending December 31, 2020.