

College Greens East Homeowners Association
Sacramento County, California

April 17, 2021

Shaw Accountancy Corporation
3416 American River Drive, Suite A
Sacramento, CA 95864

We are providing this letter in connection with your review of the financial statements of College Greens East Homeowners 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, for the purpose of obtaining limited assurance as a basis for reporting whether you are aware of any material modifications that should be made to the financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person using the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of April 17, 2021, the following representations made to you during your review.

1. We have fulfilled our responsibility for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, as set out in the terms of the engagement.
2. We have made available to you all –
 - a. Financial records and related data.
 - b. Minutes of the meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of board members, directors, and committees of directors (or other similar bodies, as applicable).
 - c. Additional information you have requested from us for the purpose of the review.
 - d. Unrestricted access to Association personnel from whom you determined it necessary to obtain review evidence.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. All material transactions have been recorded and have been properly reflected in the financial statements.
5. There are no uncorrected misstatements.
6. We acknowledge and have fulfilled our responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
7. We acknowledge our responsibility for designing, implementing, and maintaining internal control to prevent and detect fraud.
8. We have no knowledge of any fraud or suspected fraud affecting the Association involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements, including any communications received from employees, former employees, or others.
9. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. The following have been properly recorded or disclosed in the financial statements:
 - a. Related-party transactions and related accounts receivable or payable, including member assessments, purchases, loans, transfers, leasing arrangements, and guarantees.
 - b. Guarantees, whether written or oral, under which the Association is contingently liable to a bank or other lending institutions.
 - c. Commitments to purchase or sell investments or agreements to repurchase assets previously sold.
 - d. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275, *Risks and Uncertainties*.
11. There are no-
 - a. Known or suspected instances of noncompliance with laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

- b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with FASB ASC 450, *Contingencies*, and we have not consulted a lawyer concerning litigation, claims, or assessments.
 - c. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, *Contingencies*.
12. There are no transfers or designations of fund balance or interfund borrowings that were not properly authorized and approved or uncollectible interfund loans that have not been properly reflected in the financial statements or disclosed to you.
 13. The Association has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.
 14. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 15. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
 16. We are in agreement with the adjusting journal entries, if any, you have recommended, and they have been posted to the Association's accounts.
 17. The board of directors is collecting funds for future major repairs and replacements in conformity with the Association's policy to fund for those needs based on a study conducted in 2020. The board of directors believes the funds will adequately provide for future major repairs and replacements.
 18. Although we have engaged you to assist the board of directors in assembling certain information about future repairs and replacements that will accompany the financial statements mentioned above, we acknowledge that we are responsible for that information.
 19. The Association's allocation of expenses against exempt and nonexempt function income conforms with IRS rules, which require that the allocation be made "on a reasonable basis." We have adequately documented such allocation.

20. The board of directors has reviewed the Association's insurance coverage for the current year and believes it is adequate.
21. No events have occurred subsequent to the date of the Association's financial statements and through the date of this letter that would require adjustments to, or disclosure in, the aforementioned financial statements.
22. We have responded fully and truthfully to all inquiries made to us by you during your review.
23. If the Association filed an 1120 tax return the allocation of expenses against exempt and nonexempt income conforms with IRS rules, which require that the allocation be made on a reasonable and consistently applied basis. We have adequately documented such allocation. If an 1120H tax return was filed, the allocation of expenses against membership and nonmembership income conforms with IRS rules, which require that the allocation be made "on a reasonable and consistently applied basis".
24. In regards to the financial statement and tax return preparation services performed by you, we have:
 - Assumed all management responsibilities.
 - Overseen the services by designating an individual who possesses suitable skill, knowledge, and/or experience.
 - Evaluated the adequacy and results of the services performed.
 - Accepted responsibility for the results of the services.

College Greens East Homeowners Association

Signature: _____

Title: _____

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2020

DRAFT

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.

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SHAW ACCOUNTANCY CORPORATION

Certified Public Accountants

John Shaw, CPA

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
College Greens East Homeowners Association, Inc.

We have reviewed the accompanying financial statements of College Greens East Homeowners Association, Inc., 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association 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

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement 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.

Accountants' Conclusion on the Financial Statements

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 10 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.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplementary information in the Schedule of Operating Fund Revenues and Expenses – Budget and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statement. Such information (except for the budget information, which was compiled without audit or review from information that is the presentation of management, on which we do not express an opinion or any other form of assurance) has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to it.

Shaw Accountancy Corporation
Sacramento, California

April 17, 2021

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash	\$ 56,005	\$ 135,720	\$ 191,725
Assessments receivables, less bad debt allowance of \$21,882	-		-
Prepaid income taxes	<u>2,290</u>		<u>2,290</u>
Total assets	<u><u>\$ 58,295</u></u>	<u><u>\$ 135,720</u></u>	<u><u>\$ 194,015</u></u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts payable	\$ 4,851	\$	\$ 4,851
Assessments paid in advance	41,759		41,759
Deposits liability	8,540		8,540
Due from reserve fund	5,274	(5,274)	
Contract liability		<u>139,407</u>	<u>139,407</u>
Total liabilities	60,424	134,133	194,557
Fund balance	<u>(2,129)</u>	<u>1,587</u>	<u>(542)</u>
Total liabilities and fund balance	<u><u>\$ 58,295</u></u>	<u><u>\$ 135,720</u></u>	<u><u>\$ 194,015</u></u>

See accompanying notes and independent accountants' review report.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2020

	Operating Fund	Replacement Fund	Total
REVENUES			
Members' assessments	\$ 63,667	\$ 3,355	\$ 67,022
Late fees and penalties	2,078		2,078
Barn revenue	13,925		13,925
Interest income	90	235	325
	<u>79,760</u>	<u>3,590</u>	<u>83,350</u>
EXPENSES			
Administrative	9,268		9,268
Bad debt	5,263		5,263
Insurance	8,627		8,627
Landscape maintenance	17,974		17,974
Legal and professional	5,066		5,066
Payroll and burden	25,206		25,206
Professional management	27,540		27,540
Common area maintenance	4,686	2,003	6,689
Utilities	17,986		17,986
	<u>121,616</u>	<u>2,003</u>	<u>123,619</u>
DEFICIT OF REVENUES OVER EXPENSES	(41,856)	1,587	(40,269)
BEGINNING FUND BALANCE	<u>39,727</u>	<u>-</u>	<u>39,727</u>
ENDING FUND BALANCE	<u>\$ (2,129)</u>	<u>\$ 1,587</u>	<u>\$ (542)</u>

See accompanying notes and independent accountants' review report.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2020

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Deficit of revenues over expenses	\$ (41,856)	\$ 1,587	\$ (40,269)
Adjustments to reconcile deficit of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Prepaid insurance	7,234		7,234
Increase (decrease) in:			
Accounts payable	(8,886)		(8,886)
Deposits liability	(28,250)		(28,250)
Assessments paid in advance	4,210		4,210
Contract liability		15,301	15,301
Net cash provided by operating activities	<u>(67,548)</u>	<u>16,888</u>	<u>(50,660)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Unfunded reserve fund	<u>5,274</u>	<u>(5,274)</u>	
NET INCREASE IN CASH	(62,274)	11,614	(50,660)
CASH AT BEGINNING OF YEAR	<u>118,279</u>	<u>124,106</u>	<u>242,385</u>
CASH AT END OF YEAR	<u>\$ 56,005</u>	<u>\$ 135,720</u>	<u>\$ 191,725</u>
SUPPLEMENTARY DISCLOSURE			
Income taxes paid			<u>\$ -</u>
Interest paid			<u>\$ -</u>

See accompanying notes and independent accountants' review report.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Operations

College Greens East Homeowners Association, Inc. (the Association) is a nonprofit mutual benefit corporation incorporated in 1974, under the Nonprofit Mutual Benefit Corporation Law of the State of California. The specific and primary purpose for which the Association was formed is to repair, maintain, and manage common areas, enforce the rules and regulations adopted by the Board of Directors from time to time, and discharge such other lawful duties and responsibilities required pursuant to the Corporation's Bylaws and the Declaration of Covenants, Conditions, and Restrictions. The Association is supported by monthly assessments to its 462 residential units located in Sacramento County, California.

Member 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 is 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 the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2020, the Association had delinquent assessments of \$21,882. It is the opinion of the board of directors that the Association will ultimately prevail against homeowners with delinquent assessments.

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 \$124,106 and \$139,407, respectively.

Replacement Fund

The Association has elected to set aside funds for future capital expenditures. Accumulated funds, which aggregate approximately \$135,720 at December 31, 2020, are held in separate accounts and are generally not available for operating purposes. The annual provision to the fund is determined by the Board of Directors after its consideration of a study of the reserve account requirements. The Board may estimate the total annual contribution necessary each year so as to accumulate funds in order to repair, replace, restore, or maintain its capital assets at the end of their useful life. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts designated for the future repair and replacements may not be adequate to meet future needs.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Replacement Fund (Continued)

Unless the governing documents impose more stringent standards, the California Civil Code limits the Board of Directors in their use of the replacement fund. The Board of Directors shall not expend funds designated as reserve funds for any purpose other than to repair, replace, restore, or maintain major components that the Association is obligated by the establishment of the reserve fund. However, such accumulated funds may only be temporarily transferred to the Association's operating fund as specified in the Civil Code. Any funds so transferred must thereafter be restored as reserve funds.

According to the Civil Code, the Board of Directors may, unless the governing documents impose more stringent standards, without approval of owners, impose the regular assessment up to 20% greater than the preceding year's regular assessment and impose the special assessment up to 5% greater than the preceding year's budgeted gross expenses.

Further, for special circumstances, the Association may impose assessments without limit for emergency situations.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. The Association is taxed on its nonexempt function income, such as interest earnings, Exempt function income, which consists primarily of member assessments, is not taxable.

The Association's income tax returns are subject to examination, generally three years for federal and four years for state, after they are filed. There were no penalties or interest related to the current year federal and state tax returns. Federal or state taxes for the year ended December 31, 2020 were \$0 and (\$9) respectively.

Cash and Cash Equivalents

The Association considers all short term investments with an original maturity of three months or less to be cash equivalents.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

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 – This fund is used to account for financial resources available for the general operations of the Association

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

Capitalization Policy and Depreciation

In accordance with the Association's capitalization policy, property and equipment acquired to which the Association has normal ownership rights, will be capitalized at cost and depreciated over its estimated useful life using the straight-line method.

Common area property and equipment contributed to the Association by the project developer has not been capitalized on the Association's financial statements since they are owned by the lot owners in common rather than the Association.

NOTE 2 – CONTINGENCY

Management is currently evaluating the recent introduction of the COVID-19 virus and its impact on the Association's financial statement and has concluded that while it is reasonably possible that the virus could have a negative effect on the financial position, results of operations and cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

See independent accountants' review report.

SUPPLEMENTARY INFORMATION

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COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2020

The Association's Board of Directors conducted a reserve study in 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from an independent consultant who inspected the 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 replacement 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 or replacement.

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

<i>Reserve Component</i>	<i>Current Replacement Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2020 Fully Funded Balance</i>
<i>01000 - Paving</i>	1,546	5-5	1-1	1,237
<i>02000 - Concrete</i>	5,873	5-8	4-4	2,194
<i>03000 - Painting: Exterior</i>	13,107	2-10	1-5	10,156
<i>03500 - Painting: Interior</i>	4,759	10-10	6-6	1,904
<i>04000 - Structural Repairs</i>	6,022	10-10	5-9	1,461
<i>05000 - Roofing</i>	39,868	25-30	1-10	26,804
<i>08000 - Rehab</i>	35,684	20-25	15-20	8,552
<i>18000 - Landscaping</i>	9,012	4-10	1-9	2,391
<i>19000 - Fencing</i>	15,216	6-30	4-5	10,826
<i>19500 - Retaining Wall</i>	5,078	20-20	10-10	2,539
<i>20000 - Lighting</i>	1,189	5-5	4-4	238
<i>21000 - Signage</i>	2,527	3-15	2-3	1,918
<i>23000 - Mechanical Equipment</i>	16,195	12-15	7-10	5,552
<i>24000 - Furnishings</i>	6,292	5-5	2-2	3,775
<i>24600 - Safety / Access</i>	2,593	10-10	9-9	259
<i>26000 - Outdoor Equipment</i>	47,608	15-18	2-12	30,059
<i>27000 - Appliances</i>	3,198	10-12	2-2	2,622
<i>29000 - Infrastructure</i>	10,597	10-10	3-3	7,418
Totals	\$226,362			\$119,905

Total reserve funds at December 31, 2020

\$ 135,720

See independent accountants' review report.

COLLEGE GREENS EAST HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF OPERATING FUND REVENUES
AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2020

	Budget	Actual
REVENUES		
Members' assessments	\$ 63,667	\$ 63,667
Late fees and penalties	1,600	2,078
Barn revenue	77,047	13,925
Interest income	50	90
	142,364	79,760
EXPENSES		
Administrative	19,785	9,268
Bad debt	1,500	5,263
Insurance	9,000	8,627
Landscape maintenance	24,250	17,974
Legal and professional	8,750	5,066
Payroll and burden	26,000	25,206
Professional management	27,540	27,540
Common area maintenance	12,187	4,686
Utilities	13,352	17,986
	142,364	121,616
EXCESS OF REVENUES OF EXPENSES	\$ -	\$ (41,856)

See independent accountants' review report.