

SUMMERFIELD HOMEOWNERS ASSOCIATION, INC.

INDEPENDENT ACCOUNTANT'S COMPILATION REPORT,
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

MARCELLO LARA

Certified Public Accountant & Consultant

Summerfield Homeowners Association, Inc.

Contents Year Ended June 30, 2020

	Page(s)
INDEPENDENT ACCOUNTANT'S COMPILATION REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Revenues, Expenses and Changes in Fund Balances	3
Statement of Cash Flows	4
NOTES TO FINANCIAL STATEMENTS	5 - 8
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements at June 30, 2020	9



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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors and Members of
Summerfield Homeowners Association, Inc.
Poway, California

Management is responsible for the accompanying financial statements of **Summerfield Homeowners Association, Inc.** (the Association), which comprise the balance sheet as of June 30, 2020 and the related statement of revenues, expenses and changes in fund balances, and the statement of cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on page(s) 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, 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. The required supplementary information has been compiled from information that is the representation of management. I have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion or provide any assurance on it.

Marcello Lara

September 23, 2020

Summerfield Homeowners Association, Inc.

Balance Sheet
as of June 30, 2020

		2020		
	Note	Operations Fund	Replacement Fund	Total Funds
Assets				
Cash and cash equivalents	2.3	\$ 50,697	\$ 97,100	\$ 147,797
Total Assets		<u>\$ 50,697</u>	<u>\$ 97,100</u>	<u>\$ 147,797</u>
Liabilities				
Total Liabilities		<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance		<u>50,697</u>	<u>97,100</u>	<u>147,797</u>
Total Liabilities and Fund Balance		<u>\$ 50,697</u>	<u>\$ 97,100</u>	<u>\$ 147,797</u>

See independent accountant's compilation report and accompanying notes.

Summerfield Homeowners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances for the Year Ended June 30, 2020

		2020		
<u>Note</u>	<u>Operations</u>	<u>Replacement</u>	<u>Total</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	
Revenues				
Member assessments	2.7	\$ 55,988	\$ -	\$ 55,988
Insurance claim settlements	2.8	8,113	-	8,113
Late charges and other income		1,998	-	1,998
Total Revenues		66,099	-	66,099
Expenses				
<u>Administration</u>				
Insurance		11,231	-	11,231
Legal, accounting and consulting		3,799	-	3,799
Office, printing and postage		903	-	903
Total administration		15,933	-	15,933
<u>Common Area Maintenance</u>				
Landscape maintenance		7,848	-	7,848
Pool and spa maintenance and repair		5,348	1,319	6,667
Other maintenance and repairs		1,262	-	1,262
Plumbing maintenance and repair		225	-	225
Total Common Area Maintenance		14,683	1,319	16,002
<u>Utilities</u>				
Garbage collection		5,819	-	5,819
Gas and electricity		1,495	-	1,495
Total Utilities		7,314	-	7,314
Total Expenses		37,930	1,319	39,249
Excess (Deficiency) of Revenues Over Expenses		28,169	(1,319)	26,850
Reclassifications and transfers		(11,319)	11,319	-
Fund Balance, Beginning of Year		33,847	87,100	120,947
Fund Balance, End of Year		\$ 50,697	\$ 97,100	\$ 147,797

See independent accountant's compilation report and accompanying notes.

Summerfield Homeowners Association, Inc.

Statement of Cash Flows for the Year Ended June 30, 2020

	2020		
	<u>Operations</u>	<u>Replacement</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>Operating Activities</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ 28,169	\$ (1,319)	\$ 26,850
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Reclassifications and transfers	(11,319)	11,319	-
Decrease (Increase) in Assets: Increase (Decrease) in Liabilities			
Total Adjustments	<u>(11,319)</u>	<u>11,319</u>	<u>-</u>
Net Cash Provided by (Used for) Operating Activities	<u>16,850</u>	<u>10,000</u>	<u>26,850</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>16,850</u>	<u>10,000</u>	<u>26,850</u>
Cash and Cash Equivalents, Beginning of Year	<u>33,847</u>	<u>87,100</u>	<u>120,947</u>
Cash and Cash Equivalents, End of Year	<u>\$ 50,697</u>	<u>\$ 97,100</u>	<u>\$ 147,797</u>

See independent accountant's compilation report and accompanying notes.

Summerfield Homeowners Association, Inc.

Notes to Financial Statements
for the Year Ended June 30, 2020

1. Nature of Organization

Summerfield Homeowners Association, Inc. (the Association) is a common interest development located in Poway, California which consists of 173 residential dwellings and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation on November 22, 1972 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

2. Summary of Significant Accounting Policies

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

2.2 Fund Accounting. The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the 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 two funds established according to their nature and purpose.

Operations Fund - This fund is used to account for the financial resources available for the general day-to-day operations of the Association.

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

2.3 Cash and Cash Equivalents. For purposes of the balance sheet and the statement of cash flows, the Association considers cash on hand, demand deposits with financial institutions, money market accounts and all short-term investments with original maturities of three months or less to be included in cash and cash equivalents.

2.4 Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

See independent accountant's compilation report.

Summerfield Homeowners Association, Inc.

Notes to Financial Statements
for the Year Ended June 30, 2020

2.5 Member Receivables at the balance sheet date represent aggregate amounts due from unit owners which may include regular assessments, late fees, fines, reimbursement assessments and other charges. The Association's policy is to retain legal counsel, if necessary, and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. 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.

It is the opinion of the Board of Directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for delinquent accounts is deemed necessary.

2.6 Real and Personal Common Property acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

2.7 Member Assessments. Association members are subject to annual 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. In addition to regular annual assessments, special and/or emergency assessments may be imposed by the Association's Board of Directors under certain circumstances without member approval. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Annual assessments for the year ended June 30, 2020 were as follows:

	Annual		
	Operations	Replacement	
	Fund	Fund	Total
Member assessments	<u>\$ 320.00</u>	<u>\$ -</u>	<u>\$ 320.00</u>

2.8 Interest Earned on operating and replacement funds, net of related income taxes, is retained in said respective funds.

2.9 Income Taxes. The Association elects annually to be taxed as either a regular corporation under Internal Revenue Code (IRC) § 277 or as a homeowners association under IRC § 528 in its tax filing with the Internal Revenue Service (IRS). Form 1120 is used when filing as a regular corporation and Form 1120-H is used when filing as a homeowners association.

See independent accountant's compilation report.

Summerfield Homeowners Association, Inc.

Notes to Financial Statements
for the Year Ended June 30, 2020

Income taxes (continued)

For the year ended June 30, 2020, the Association elected to file Form 1120-H and be taxed as a homeowners association. By doing so, the Association is taxed at a flat 30% rate on its nonexempt function income (generally investment interest income), less directly related expenses and a specific deduction of \$100.

The Association is taxed by the California Franchise Tax Board (FTB) at a rate of 8.84% on its net nonexempt function income.

The Association has qualified as a tax-exempt entity with the FTB under California Revenue and Taxation Code § 23701. To maintain tax-exempt status with FTB the Association must, among other things, file an annual informational return known as Form 199 and pay a \$10 filing fee.

The Association's income tax returns are subject to examination by various taxing authorities. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

2.10 Fair Value of Financial Instruments. The carrying amounts of financial instruments, including cash and cash equivalents, member receivables, and accounts payable, if any, approximate their fair value due to the short term maturities of these instruments.

3. Concentrations of Credit Risk

The Association maintains its deposits with what management believes to be high credit quality financial institutions and attempts to limit the amount of credit exposure to any one particular institution. The balances in those accounts may occasionally exceed the current Federal Deposit Insurance Corporation (FDIC) insurance protection of up to \$250,000 per depositor per institution. Amounts held with broker-dealers are not usually insured by the FDIC, but rather they are privately insured by the Securities Investor Protection Corporation (SIPC).

4. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated cash, cash equivalents and investments, if any, are required to be held in separate savings accounts are generally not available for expenditures for normal operations.

In April 2019 a full component study was completed by Barrera & Co. to estimate the remaining useful

See independent accountant's compilation report.

Summerfield Homeowners Association, Inc.

Notes to Financial Statements
for the Year Ended June 30, 2020

Future major repairs and replacements (continued)

lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual component cost inflation rate of 3.00% and an interest rate of 0.50% earned on cash and investments on amounts funded for future major repairs and replacements. The table on page(s) 9 on future major repairs and replacements is based on the aforementioned study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the Board has approved an annual contribution of \$0 in the 2021 operating budget. Additional information regarding the Association's funding model may be found in the annually-prepared pro forma operating budget and/or the assessment and reserve funding disclosure summary.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacement of common property components. Actual expenditures and investment income 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 all future needs for major repairs and replacements. If additional funds are needed, the association has the right, subject to the constraints in its governing documents and California civil code, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

5. Commitments

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

6. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 23, 2020, the date that the financial statements were available to be issued.

See independent accountant's compilation report.

Summerfield Homeowners Association, Inc.

Supplementary Information on Future
Major Repairs and Replacements
June 30, 2020
(Compiled Without Audit or Review)

In April 2019 a full component study was completed by Barrera & Co. to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on current estimated replacement costs. Funding requirements consider an annual component cost inflation rate of 3.00% and an interest rate of 0.50% earned on cash and investments on amounts funded for future major repairs and replacements.

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

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
Asphalt & Concrete Surfaces	4-29	\$ 39,599
Fencing, Rails & Walls	0-23	\$ 64,977
Landscaping	1-14	\$ 13,490
Lighting	6-12	\$ 9,700
Painting	1	\$ 4,978
Pool Area	0-15	\$ 99,402
Roofing	6-19	\$ 4,840
	<i>TOTAL</i>	<u>\$ 236,986</u>
Estimated cash reserves necessary to repair, replace, restore, or maintain the major components (*) as of June 30, 2019		<u>\$ 153,000</u>
Replacement fund cash and investments at June 30, 2020		<u>\$ 97,100</u>
Replacement fund balance at June 30, 2020		<u>\$ 97,100</u>
2021 Budgeted reserve contributions		<u>\$ 0</u>

*Figure obtained from the Association's most recent full component study prepared by Barrera & Co.. Detailed information can be found in that report, dated April 2019.

See independent accountant's compilation report.