



Member:  
American Institute  
of Certified Public  
Accountants

Member:  
California Society  
of Certified Public  
Accountants

23041 Avenida de la Carlota, Suite 310  
Laguna Hills, CA 92653

Phone: (949) 586-6640  
Fax: (949) 586-6137

To the Board of Directors and Members of  
Toluca Town House No. 3 Homeowners Association

### **INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

We have reviewed the accompanying financial statements of Toluca Town House No. 3 Homeowners Association, which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses, and changes in fund balances 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.

#### **Accountant's 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.

#### **Accountant's 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.

Board of Directors and Members  
Toluca Town House No. 3 Homeowners Association

**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 required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information and we do not express an opinion, a conclusion, nor provide assurance on it.

**Inouye, Shively, Klatt & McCorvey CPAs, LLP**

*Inouye, Shively, Klatt & McCorvey*

Laguna Hills, CA  
May 18, 2021

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**

**BALANCE SHEET**

AS OF DECEMBER 31, 2020

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 24,735	\$ 233,454	\$ 258,189
Assessments receivable	865	-	865
Prepaid expenses	2,580	-	2,580
Interfund account	(16,140)	16,140	-
<b>Total assets</b>	12,040	249,594	261,634
<b>Liabilities</b>			
Accounts payable	1,738	-	1,738
Prepaid/deferred assessments	4,320	249,594	253,914
	6,058	249,594	255,652
<b>Fund balances</b>	5,982	-	5,982
<b>Total liabilities and fund balances</b>	\$ 12,040	\$ 249,594	\$ 261,634

See independent accountants' review report and accompanying notes to financial statements.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2020

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenues</b>			
Member assessments	\$ 115,338	\$ 52,667	\$ 168,005
Special assessments	62,000	-	62,000
Investment income	1	136	137
Other income	2,911	-	2,911
<b>Total revenues</b>	<b>180,250</b>	<b>52,803</b>	<b>233,053</b>
<b>Expenses</b>			
Landscape services	18,676	2,600	21,276
Pool/spa services	3,038	-	3,038
General maintenance and repairs	38,678	-	38,678
Security/patrol services	500	-	500
Pest control	2,044	-	2,044
Janitorial services	2,450	-	2,450
Water	9,244	-	9,244
Electricity	2,729	-	2,729
Gas	77	-	77
Management fees	10,655	-	10,655
Office supplies/printing/postage	443	-	443
Insurance	33,795	-	33,795
Legal and collection	3,326	-	3,326
Audit/tax preparation/reserve study	2,720	-	2,720
General and administrative	1,854	4,503	6,357
Pool project	62,000	37,700	99,700
Balcony	-	8,000	8,000
<b>Total expenses</b>	<b>192,229</b>	<b>52,803</b>	<b>245,032</b>
Deficiency of revenues over expenses	(11,979)	-	(11,979)
Beginning fund balances	17,961	-	17,961
<b>Ending fund balances</b>	<b>\$ 5,982</b>	<b>\$ -</b>	<b>\$ 5,982</b>

See independent accountants' review report and accompanying notes to financial statements.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Deficiency of revenues over expenses	\$ (11,979)	\$ -	\$ (11,979)
Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities			
Increase in net assessments receivable	(775)	-	(775)
Increase in prepaid expenses	(2,580)	-	(2,580)
Decrease in accounts payable	(1,607)	-	(1,607)
Increase (decrease) in prepaid/deferred assessments	816	(12,485)	(11,669)
Total adjustments	(4,146)	(12,485)	(16,631)
Net cash used in operating activities	(16,125)	(12,485)	(28,610)
<b>Cash flows from financing activities:</b>			
Change in interfund payable balances	16,140	(16,140)	-
Net cash provided by (used in) financing activities	16,140	(16,140)	-
<b>Net increase (decrease) in cash and cash equivalents</b>	15	(28,625)	(28,610)
Cash and cash equivalents at beginning of year	24,720	262,079	286,799
Cash and cash equivalents at end of year	\$ 24,735	\$ 233,454	\$ 258,189
<b>Supplemental disclosure</b>			
Income taxes paid	\$ 10	\$ -	\$ 10

See independent accountants' review report and accompanying notes to financial statements.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE 1 - NATURE OF ORGANIZATION**

Toluca Town House No. 3 Homeowners Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 36 residential units occupying a site in Burbank, California and was incorporated on April 28, 1994.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Basis of Accounting: Accounting records for the Association are maintained on a modified accrual basis of accounting, which recognizes assessments when billed, but recognizes other revenues when received and expenses when paid. For review and tax purposes, adjustments have been made to convert the Association's financial statements to the full accrual basis of accounting, which recognizes revenues when earned and expenses when incurred.

(b) Fund Accounting: The Association uses fund accounting which requires that funds be classified separately for accounting and reporting purposes. Financial resources are classified in the following funds established according to their nature and purpose:

Operating Fund - Available for normal operating purposes. Disbursements are generally at the discretion of the Board of Directors.

Replacement Fund - Available for major repairs and replacements of common area components. Disbursements generally may be made only for their designated purpose.

(c) Capitalization and Depreciation Policy: Real property contributed by the developer as well as replacements and improvements are generally not capitalized since the Association's governing documents impose restrictions on its disposition. Significant personal property assets, if any, are generally capitalized at cost and depreciated over its estimated useful life using the straight-line method of depreciation.

(d) Cash Equivalents and Investments: Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Investments consist primarily of certificates of deposit and other securities with original maturities over 90 days. Investments are considered to be held to maturity. Cash equivalents and investments are stated at cost.

(e) Investment Income: Investment income consists primarily of interest and dividends earned on cash, cash equivalents and investment accounts, and is recorded as it is earned. Investment income is generally accounted for in the fund in which it is earned.

(f) Estimates: Financial statements prepared in conformity with generally accepted accounting principles require the use of estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(g) Subsequent Events: The Association has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through May 18, 2021, the date the financial statements were available to be issued.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association is in compliance with its governing documents that require funds be accumulated for future major repairs and replacements of common property components. Substantially all accumulated funds are held in separate accounts and are generally not available for normal operating purposes. For the year ended December 31, 2020, the budgeted contribution to the replacement fund was \$40,182.

The Association's reserve funding policy was based on a study conducted in August 2020, by an independent analyst to estimate the remaining useful lives and costs of future major repairs and replacements of common property components. The study recommends a fully funded reserve balance of \$340,522. As of December 31, 2020, the actual available replacement fund balance was \$233,454. The study recommends an annual member contribution of \$43,080. The Association's 2021 budget includes a reserve contribution of \$35,616.

Funds are being accumulated in the replacement fund based on estimated future costs. 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 all future needs. If additional funds are needed, the Association has the right to increase assessments, pass special assessments, or delay repairs and replacements until funds are available.

**NOTE 4 - INCOME TAXES**

For the year ended December 31, 2020, the Association qualified as a tax-exempt homeowners' association under Internal Revenue Code Section 528 and California Revenue and Taxation Code Section 23701t. Under these Sections the Association is not taxed on net income related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes investment income and revenues received from nonmembers, is taxed at 30% by the federal government and 8.84% by the State of California.

The Association recognizes tax benefits only to the extent that it believes it is more likely than not that its tax positions will be sustained upon examination by taxing authorities. The Association believes that all of its tax positions will be sustained if examined by taxing authorities, therefore no additional tax liabilities or related penalties and interest due to uncertain tax positions have been recorded. The Association's tax returns are subject to examination by the Internal Revenue Service for three years after they are filed, and by the California Franchise Tax Board for four years after they are filed.

**NOTE 5 - MEMBER ASSESSMENTS**

Association members are subject to paying monthly assessments to fund the Association's operating activities and future 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 the funds are expended for their designated purpose. The annual budget and member assessments are determined by the Board of Directors. The Association retains excess funds at the end of the year, if any, for use in future periods.

In addition, a special assessment of \$1,730 per unit was levied to fund a pool renovation project.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 6 - ASSESSMENTS RECEIVABLE**

Assessments receivable represent assessments and other fees due from members and are stated at the amounts expected to be collected. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are thirty days or more delinquent. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible 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 \$90 and \$865, respectively.

Generally accepted accounting principles require uncollectible accounts to be accounted for using the allowance method. The Association considers all accounts fully collectible, and thus an allowance for doubtful accounts is not necessary.

**NOTE 7 - PREPAID/DEFERRED ASSESSMENTS**

The Association recognizes revenue from members as the related performance obligations are satisfied. Prepaid/deferred assessments are recorded when the Association receives payment in advance of the satisfaction of performance obligations. The total column balances of prepaid/deferred assessments as of the beginning and end of the year are \$3,504 and \$253,914, respectively.

**NOTE 8 - 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 (CIRA), 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 January 01, 2020, 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 the 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 January 01, 2020. Adoption of the new guidance resulted in changes to the Association's accounting policies for assessment revenue and prepaid assessments, as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to beginning fund balances (total column):

Beginning fund balances as previously reported	\$ 280,040
Adjustment	<u>(262,079)</u>
Beginning fund balances as adjusted	<u>\$ 17,961</u>

The effect of the adoption is an increase in member assessments by \$12,485 and a recording of prepaid/deferred assessments of \$249,594. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.



**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**DECEMBER 31, 2020**

**NOTE 8 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (CONTINUED)**

The modified retrospective method of transition requires the Association to disclose the effect of applying the new guidance on each item included in the financial statements. Following are the line items from the balance sheet as of December 31, 2020, and the statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, that were affected:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported (Total Column)
Prepaid/deferred assessments	\$ 4,320	\$ 249,594	\$ 253,914
Ending fund balances	256,576	(249,594)	5,982
Member assessments	155,520	12,485	168,005
Deficiency of revenues over expenses	(24,464)	12,485	(11,979)
Change in prepaid/deferred assessments	816	(12,485)	(11,669)

**NOTE 9 - CONCENTRATION OF CREDIT RISK**

The Federal Deposit Insurance Corporation (FDIC) standard coverage amount is \$250,000 per depositor, per insured bank. As of December 31, 2020, the Association had deposits with CIT Bank that exceeded the FDIC coverage limit by approximately \$14,000.

**NOTE 10 - INTERFUND ACCOUNT**

The interfund account represents the amount one fund owes another fund. Various scenarios may cause this situation which include, but are not limited to, one fund paying the expenses of another fund, one fund borrowing from another fund, or the operating fund not paying the full annual budgeted contribution amount to the replacement fund.

**NOTE 11 - CONTINGENCY**

In March 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen that may adversely affect the Association. However, the financial impact, if any, cannot be reasonably estimated at this time.

**TOLUCA TOWN HOUSE NO. 3 HOMEOWNERS ASSOCIATION**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**  
**REPAIRS AND REPLACEMENTS**  
**AS OF DECEMBER 31, 2020**  
**(UNAUDITED)**

A study was conducted in August 2020, by an independent analyst to estimate the remaining useful lives and the repair and replacement costs of common property components. The study was based on information provided by management, the Board of Directors, and Association vendors, as well as the knowledge and experience of the analyst. The study preparer may also use published manuals such as construction estimators, appraisal handbooks and valuation guides to estimate costs and remaining useful lives. The estimated costs were based on current estimated repair and replacement costs at the time of the study. Funding requirements consider an inflation rate of 3% and an investment rate of 1% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$340,522. As of December 31, 2020, the actual available replacement fund balance was \$233,454. The study recommends an annual member contribution of \$43,080. The Association's 2021 budget includes a reserve contribution of \$35,616.

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

Common Property Components	Estimated Remaining Useful Lives (Years)	Estimated Repair and Replacement Costs
Decking	0 - 24	\$ 41,050
Asphalt	1 - 21	39,550
Concrete	1	6,550
Lighting	0 - 23	20,850
Pool furniture	0	3,050
Wall/fence/rail	13 - 14	7,050
Backflow device	14	2,600
Painting	0 - 4	18,800
Masonite siding	11	13,900
Pool	9 - 24	37,300
Roofs	1 - 5	226,500
Gutters/downspouts	21	36,500
Termites	0	47,500
Total		<u>\$ 501,200</u>