

**The Community Association of Bernardo Heights
Financial Statements
For the Year Ended December 31, 2020**



NEWMAN
Certified Public Accountant, PC

**The Community Association of Bernardo Heights
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For the Year Ended December 31, 2020**

TABLE OF CONTENTS

Independent Auditor's Report.....	3
Balance Sheet.....	4
Statement of Revenues and Expenses and Changes in Fund Balances.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-10
Supplementary Information.....	11



Independent Auditor's Report

To the Board of Directors of The Community Association of Bernardo Heights

We have audited the accompanying financial statements of The Community Association of Bernardo Heights (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 The Community Association of Bernardo Heights 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 a Matter on Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basic financial statement, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements as discussed in Note 5 are adequate to meet such future costs, 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 Supplementary Information on Future Repairs and Replacements on page 11 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
April 21, 2021

The Community Association of Bernardo Heights
Balance Sheet
December 31, 2020

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalents	\$ 636,472	\$ 361,105	\$ 997,577
Investments		300,000	300,000
Assessments receivable	2,809		2,809
Interest receivable		1,445	1,445
Due from (to) fund	318	(318)	-
Total assets	<u>\$ 639,599</u>	<u>\$ 662,232</u>	<u>\$ 1,301,831</u>
Liabilities			
Accounts payable	\$ 32,799	\$ -	\$ 32,799
Accrued payroll and related expenses	27,055		27,055
Prepaid assessments	21,060	-	21,060
Income taxes payable	21,344		21,344
Contract liabilities (Assessments received in advance - replacement fund)		662,232	662,232
Total liabilities	<u>102,258</u>	<u>662,232</u>	<u>764,490</u>
Fund balances	<u>537,341</u>	<u>-</u>	<u>537,341</u>
Total liabilities and fund balances	<u>\$ 639,599</u>	<u>\$ 662,232</u>	<u>\$ 1,301,831</u>

The Community Association of Bernardo Heights
Statement of Revenue and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2020

	Operating Fund	Replacement Fund	Total
Revenues			
Owners assessments	\$ 1,955,085	\$ 192,618	\$ 2,147,703
Rental income	69,000		69,000
Cable assessments	39,000		39,000
Bad debt recovery	34,240		34,240
Interest		8,679	8,679
Other member income	40,550		40,550
Total revenues	<u>2,137,875</u>	<u>201,297</u>	<u>2,339,172</u>
Expenses			
Utilities			
Electricity and gas	68,421		68,421
Water	508,534		508,534
Trash removal	3,785		3,785
Telephone	2,160		2,160
Cable	1,185		1,185
	<u>584,085</u>	<u>-</u>	<u>584,085</u>
Maintenance			
Landscape and irrigation	650,564	103,020	753,584
Tree trimming	88,096		88,096
Common area repairs and maintenance	37,453	66,067	103,520
Pool and spa	81,144	32,200	113,344
HVAC	652		652
Pest control	3,495		3,495
Janitorial	27,689		27,689
Patrol and security	10,690		10,690
	<u>899,783</u>	<u>201,287</u>	<u>1,101,070</u>
Administrative			
Insurance	67,348		67,348
Management	29,046		29,046
Administrative expense	45,748	10	45,758
Payroll and related expenses	244,320		244,320
Legal and professional	13,425		13,425
Licenses, permits and fees	720		720
Income tax expense	38,694		38,694
	<u>439,301</u>	<u>10</u>	<u>439,311</u>
Total expenses	<u>1,923,169</u>	<u>201,297</u>	<u>2,124,466</u>
Excess (deficit) of revenues over (under) expenses	214,706	-	214,706
Beginning fund balances	322,635	-	322,635
Ending fund balances	<u>\$ 537,341</u>	<u>\$ -</u>	<u>\$ 537,341</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

The Community Association of Bernardo Heights
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	\$ 214,706	\$ -	\$ 214,706
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Accounts receivable	54,680		54,680
Allowance for doubtful accounts	(34,240)		(34,240)
Interest receivable		2,698	2,698
Increase (decrease) in operating liabilities:			
Accounts payable	(27,827)	(77,659)	(105,486)
Accrued payroll and related expenses	(577)		(577)
Prepaid assessments	(11,321)		(11,321)
Income taxes payable	19,768		19,768
Contract liabilities (Assessments received in advance - replacement fund)		(112,157)	(112,157)
Total adjustments	<u>483</u>	<u>(187,118)</u>	<u>(186,635)</u>
Net cash provided (used) by operating activities	<u>215,189</u>	<u>(187,118)</u>	<u>28,071</u>
Cash provided (used) by investing activities			
Change in investments		200,000	200,000
Net cash provided (used) by investing activities	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Cash provided (used) by financing activities			
Interfund borrowings	29,771	(29,771)	-
Net cash provided (used) by financing activities	<u>29,771</u>	<u>(29,771)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	244,960	(16,889)	228,071
Beginning cash and cash equivalents	391,512	377,994	769,506
Ending cash and cash equivalents	<u>\$ 636,472</u>	<u>\$ 361,105</u>	<u>\$ 997,577</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ 17,350
Interest paid			<u>\$ -</u>

The Community Association of Bernardo Heights
Notes to Financial Statements
For the Year Ended December 31, 2020

1. Organization

The Community Association of Bernardo Heights (the "Association") was incorporated on February 13, 1981 as a nonprofit mutual benefit corporation under the laws of California for the purposes of maintaining and preserving common property. The Association consists of 3,488 residential homes and is located in Rancho Bernardo, 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 April 21, 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 \$57,489 and \$2,809, 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.

Property and Equipment

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.

The Community Association of Bernardo Heights
Notes to Financial Statements
For the Year Ended December 31, 2020

Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as 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. The balances of Contract Liabilities (assessments received in advance - replacement fund) as of the beginning and end of the year are \$774,389 and \$662,232, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

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, \$496,877 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 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.

The Community Association of Bernardo Heights
Notes to Financial Statements
For the Year Ended December 31, 2020

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	\$774,389
Assessments budgeted for Replacement Fund	\$85,294
Recognized Replacement Fund assessments	\$(192,618)
Adjustment and transfer to/from contract liabilities	\$(4,833)
Contract liabilities (Assessments received - in advance - replacement fund) as of December 31, 2020	<u>\$662,232</u>

The Community Association of Bernardo Heights
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

A prior period adjustment has been recorded to account for interest income recorded to the prior period, totaling \$4,833. The correction has no effect on the results of the current year's operations.

9. Silvergate Rancho Bernardo Project

In 2016, the Association entered into an annexation agreement with AmeriCare Health & Retirement, Inc (Americare). Americare purchased real property, which is adjacent to residential housing developments which are part of Bernardo Heights, for the purpose of developing a rental, assisted care facility, tentatively known as Silvergate Rancho Bernardo. During 2020, Americare and Silvergate Rancho Bernardo entered into an agreement to pay monthly assessments of \$5,583 beginning July 1, 2020.

10. San Diego Gas and Electric Rental Agreement

On September 1, 2020, the Association entered into a licensing agreement with SDG&E to lease empty property for storage. In consideration for the use of property, SDG&E agrees to pay a monthly rate of \$17,250 until the termination of the agreement.

The Community Association of Bernardo Heights
Supplementary Information on Future Major Repairs and Replacements
December 31, 2020
(Unaudited)

The Association's Board of Directors, in conjunction with a reserve study expert, conducted a reserve study dated October 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.

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Community Center, clubhouse	0-22	\$ 531,693
Community Center, courts	0-13	111,788
Community Center, pool, spa and wader	1-24	491,023
Community Center, site	0-49	976,546
Lucido Park	0-36	282,668
Site, irrigation	0-18	393,300
Site, landscape	0-7	87,000
Site, signage	2-47	321,800
		<u>\$ 3,195,818</u>

Interest rate	<u>1.00%</u>
Inflation rate	<u>3.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2020.