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American Institute
of Certified Public
Accountants

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To the Board of Directors and Members of
East Lake Village Shores Community Association

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the accompanying financial statements of East Lake Village Shores Community Association, which comprise the balance sheet as of August 31, 2023, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of East Lake Village Shores Community Association as of August 31, 2023, and the 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of East Lake Village Shores Community Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about East Lake Village Shores Community Association's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 East Lake Village Shores Community Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about East Lake Village Shores Community Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information, although not 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 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.

Inouye, Shively, Klatt & McCorvey

Inouye, Shively, Klatt & McCorvey

Laguna Hills, CA
January 3, 2024

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF AUGUST 31, 2023

| | Operating Fund | Replacement Fund | Total |
|--|---------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 33,127 | \$ 322,537 | \$ 355,664 |
| Investments | - | 500,000 | 500,000 |
| Assessments receivable | 4,766 | - | 4,766 |
| Allowance for doubtful accounts | (2,600) | - | (2,600) |
| Other receivables | 2,289 | - | 2,289 |
| Accrued interest receivable | - | 1,304 | 1,304 |
| Prepaid expenses | 6,528 | - | 6,528 |
| Interfund account | (8,097) | 8,097 | - |
| Total assets | 36,013 | 831,938 | 867,951 |
| Liabilities | | | |
| Accounts payable | 13,166 | - | 13,166 |
| Prepaid/deferred assessments | 43,425 | 831,938 | 875,363 |
| Other payables | 1,112 | - | 1,112 |
| Income taxes payable | 4,580 | - | 4,580 |
| | 62,283 | 831,938 | 894,221 |
| Fund balances (deficit) | (26,270) | - | (26,270) |
| Total liabilities and fund balances | \$ 36,013 | \$ 831,938 | \$ 867,951 |

See independent auditors' report and accompanying notes to financial statements.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED AUGUST 31, 2023

| | Operating Fund | Replacement Fund | Total |
|---------------------------------------|---------------------------|-----------------------------|--------------------|
| Revenues | | | |
| Member assessments | \$ 465,240 | \$ 254,260 | \$ 719,500 |
| Water reimbursements | 7,297 | - | 7,297 |
| Investment income | 34 | 15,001 | 15,035 |
| Recovery of bad debt | 1,400 | - | 1,400 |
| Other income | 4,244 | - | 4,244 |
| Total revenues | 478,215 | 269,261 | 747,476 |
| Expenses | | | |
| Landscape services | 91,155 | 45,405 | 136,560 |
| General maintenance and repairs | 14,106 | - | 14,106 |
| Water | 32,770 | - | 32,770 |
| Electricity | 2,823 | - | 2,823 |
| Cable TV | 130,393 | - | 130,393 |
| Management fees | 37,807 | - | 37,807 |
| Office supplies/printing/postage | 2,166 | - | 2,166 |
| Insurance | 169,248 | - | 169,248 |
| Legal and collection | 2,631 | - | 2,631 |
| Audit/tax preparation | 1,200 | - | 1,200 |
| General and administrative | 4,469 | - | 4,469 |
| Painting | - | 127,900 | 127,900 |
| Roofs | - | 88,706 | 88,706 |
| Paved surfaces | - | 4,850 | 4,850 |
| Wrought iron/fencing | - | 2,400 | 2,400 |
| Income taxes | 4,680 | - | 4,680 |
| Total expenses | 493,448 | 269,261 | 762,709 |
| Deficiency of revenues over expenses | (15,233) | - | (15,233) |
| Beginning fund balances (deficit) | (11,037) | - | (11,037) |
| Ending fund balances (deficit) | \$ (26,270) | \$ - | \$ (26,270) |

See independent auditors' report and accompanying notes to financial statements.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023

| | Operating Fund | Replacement Fund | Total |
|--|---------------------------|-----------------------------|--------------|
| Cash flows from operating activities: | | | |
| Deficiency of revenues over expenses | \$ (15,233) | \$ - | \$ (15,233) |
| Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities | | | |
| Decrease in net assessments receivable | 1,703 | - | 1,703 |
| Decrease in other receivables | 906 | - | 906 |
| Decrease in accrued interest receivable | - | 93 | 93 |
| Increase in prepaid expenses | (485) | - | (485) |
| Increase in accounts payable | 8,439 | - | 8,439 |
| Increase in prepaid/deferred assessments | 292 | 94,160 | 94,452 |
| Increase in income taxes payable | 4,488 | - | 4,488 |
| Total adjustments | 15,343 | 94,253 | 109,596 |
| Net cash provided by operating activities | 110 | 94,253 | 94,363 |
| Cash flows from financing activities: | | | |
| Change in interfund payable balances | (86) | 86 | - |
| Net cash provided by (used in) financing activities | (86) | 86 | - |
| Net increase in cash and cash equivalents | 24 | 94,339 | 94,363 |
| Cash and cash equivalents at beginning of year | 33,103 | 228,198 | 261,301 |
| Cash and cash equivalents at end of year | \$ 33,127 | \$ 322,537 | \$ 355,664 |
| Supplemental disclosure | | | |
| Income taxes paid | \$ - | \$ - | \$ - |

See independent auditors' report and accompanying notes to financial statements.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

NOTE 1 - NATURE OF ORGANIZATION

East Lake Village Shores Community Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 191 residential units occupying a site in Yorba Linda, California and was incorporated on September 29, 1980.

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 audit 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 - Used to account for financial resources available for the general operations of the Association.
- Replacement Fund - Used to accumulate financial resources designated for future major repairs and replacements.
- (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 which is August 2024. 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 recognized when earned. The Association's policy is to account for fund expenditures using fund investment income before fund assessment income.
- (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 January 3, 2024, the date the financial statements were available to be issued.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2023

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to 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 August 31, 2023, the budgeted member contribution to the replacement fund was \$348,420.

The Association's reserve funding policy was based on a study conducted in July 2023, 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 \$1,319,975. As of August 31, 2023, the actual available replacement fund balance was \$823,841. The study recommends an annual member contribution of \$336,113. The Association's 2023/2024 budget includes a member reserve contribution of \$337,296.

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 August 31, 2023, 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 is required to evaluate tax positions taken 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 taxing authorities. The Association has concluded that 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'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 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.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2023

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 \$7,869 and \$4,766, respectively.

The Association records an allowance for doubtful accounts as an estimate of the amount of accounts receivable that may eventually be uncollectible. The allowance was computed by adding all receivable balances older than 90 days.

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 \$781,966 and \$875,363, respectively.

NOTE 8 - CONCENTRATION OF CREDIT RISK

The Federal Deposit Insurance Corporation (FDIC) standard coverage amount is \$250,000 per depositor, per insured bank. As of August 31, 2023, the Association had deposits with First Citizen Bank that exceeded the FDIC coverage limit by approximately \$43,000.

NOTE 9 - 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 10 - OPERATING DEFICIT

As of August 31, 2023, the Association had an operating deficit, which is the result of an excess of operating expenses over operating revenues. The options available to the Association are to increase assessments, decrease spending, and/or pass a special assessment. In an effort to help alleviate this condition, the 2023/2024 annual budget includes an increase in assessments.

EAST LAKE VILLAGE SHORES COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF AUGUST 31, 2023
(UNAUDITED)

A study was conducted in July 2023, 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%, scheduled annual contribution increase of 3%, and an investment rate of 1% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$1,319,975. As of August 31, 2023, the actual available replacement fund balance was \$823,841. The study recommends an annual member contribution of \$336,113. The Association's 2023/2024 budget includes a member reserve contribution of \$337,296.

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 |
|-------------------------------|---|---|
| Building elements | 2-30 | \$ 1,925,353 |
| Paved surfaces | 1-36 | 263,471 |
| Fences & gates | 1 | 12,100 |
| Paint | 1-7 | 832,152 |
| Lighting | 6 | 68,750 |
| Irrigation | 3-13 | 46,200 |
| Landscape | 1-14 | 58,500 |
| Other | 1-13 | 67,505 |
| Total | | <u>\$ 3,274,031</u> |