

# TREO MAINTENANCE ASSOCIATION

DATE: June 2024  
TO: Treo Maintenance Association  
FROM: Rina Sagal, Vice President of Operations

Dear Homeowner:

In accordance with California Civil Code Section 5305 this notice is to advise you that the Annual Audit for the fiscal year end December 31, 2023, has been completed. This audit was prepared by an independent CPA firm, Owens, Moskowitz and Associates, Inc. and has been accepted by the Board of Directors. You may view a copy of the complete audit at [www.myhoa.com/treo](http://www.myhoa.com/treo).

Please be advised, as a property owner, you have the right under California Civil Code Section 4950 to obtain copies of minutes of the Board of Directors meetings for a nominal fee. You may send your request in writing to the Board of Directors in care of Management at the address below.

The meetings of the Board of Directors are scheduled to be held on a regular basis on the third Monday of the odd months via zoom. These meeting dates are subject to change or cancellation if there is a lack of quorum of the Board. Please call StoneKastle Community Management to confirm the meeting you plan to attend.

Should you have any questions regarding the enclosed information, please contact the Board, in writing or attend a Board meeting.

**TREO MAINTENANCE ASSOCIATION**

Audited Financial Statements

For The Year Ended December 31, 2023

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Treo Maintenance Association

**Opinion**

We have audited the accompanying financial statements of Treo Maintenance Association (a California corporation), which comprise the balance sheet as of December 31, 2023, and the related statements of revenue, expenses and association funds, 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 Treo Maintenance Association as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance 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 Treo Maintenance 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.

**Future Major Repairs and Replacement**

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 replacement as discussed in Note 3 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion is not modified with respect to that matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Treo Maintenance Association's ability to continue as a going concern within 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 Treo Maintenance 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 Treo Maintenance 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.

#### **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 13 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 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.

Owens, Moskowitz and Associates, Inc.

May 24, 2024

*Owens, Moskowitz and Associates, Inc.*

TREC MAINTENANCE ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2023

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>ASSETS</b>			
Cash	\$ 74,924	\$ 353,938	\$ 428,862
Short-Term Investments	-	950,000	950,000
Assessments Receivable	4,925	-	4,925
Interest Receivable	-	10,544	10,544
Prepaid Insurance	4,841	-	4,841
<b>Total Assets</b>	<b>\$ 84,690</b>	<b>\$ 1,314,482</b>	<b>\$ 1,399,172</b>
<b>LIABILITIES AND ASSOCIATION FUNDS</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 2,883	\$ -	\$ 2,883
Prepaid Assessments	20,064	-	20,064
Deferred Assessments (Assessments Received In Advance - Replacement Fund)	-	1,314,482	1,314,482
Income Taxes Payable	8,614	-	8,614
<b>Total Liabilities</b>	<b>31,561</b>	<b>1,314,482</b>	<b>1,346,043</b>
Commitments	-	-	-
<b>Association Funds</b>	<b>53,129</b>	<b>-</b>	<b>53,129</b>
<b>Total Liabilities And Association Funds</b>	<b>\$ 84,690</b>	<b>\$ 1,314,482</b>	<b>\$ 1,399,172</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

TREC MAINTENANCE ASSOCIATION  
STATEMENT OF REVENUE, EXPENSES AND ASSOCIATION FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2023

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUE</b>			
Assessments	\$ 224,496	\$ 190,621	\$ 415,117
Price Adjustment - Bad Debt Recovery	23,569	-	23,569
Interest Income	32	39,788	39,820
Other Income	15,632	-	15,632
<b>Total Revenue</b>	<b>263,729</b>	<b>230,409</b>	<b>494,138</b>
<b>EXPENSES</b>			
Landscape Maintenance	94,597	-	94,597
Management Fees	20,160	-	20,160
Administrative	6,852	-	6,852
Legal And Audit	10,747	-	10,747
Insurance	26,652	-	26,652
Pest Control	4,049	-	4,049
Painting	-	140,185	140,185
General Maintenance	7,995	6,412	14,407
Reserve Study	475	-	475
Electricity	8,287	-	8,287
Water	19,033	-	19,033
Doors	-	5,248	5,248
Lighting and Electrical	3,615	-	3,615
Plumbing	2,346	-	2,346
Roofs	13,026	78,564	91,590
Income Tax	10,746	-	10,746
<b>Total Expenses</b>	<b>228,580</b>	<b>230,409</b>	<b>458,989</b>
<b>Excess (Deficiency) of Revenue Over Expenses</b>	<b>35,149</b>	<b>-</b>	<b>35,149</b>
<b>Association Funds Balance Beginning of Year</b>	<b>17,980</b>	<b>-</b>	<b>17,980</b>
<b>Association Funds Balance End of Year</b>	<b>\$ 53,129</b>	<b>\$ -</b>	<b>\$ 53,129</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES

TREC MAINTENANCE ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2023

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>Cash Flows From Operating Activities:</b>			
Cash Received From Members	\$ 258,692	\$ 180,504	\$ 439,196
Cash Paid To Suppliers of Goods And Services	(218,899)	(230,409)	(449,308)
Interest Received	32	31,818	31,850
Income Taxes Paid	(479)	-	(479)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>39,346</b>	<b>(18,087)</b>	<b>21,259</b>
<b>Cash Flows From Investing Activities:</b>			
Purchase of Short-Term Investments	-	(550,000)	(550,000)
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>39,346</b>	<b>(568,087)</b>	<b>(528,741)</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>35,578</b>	<b>922,025</b>	<b>957,603</b>
<b>Cash And Cash Equivalents At End of Year</b>	<b>\$ 74,924</b>	<b>\$ 353,938</b>	<b>\$ 428,862</b>

RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

<b>Excess (Deficiency) of Revenue Over Expenses</b>	<b>\$ 35,149</b>	<b>\$ -</b>	<b>\$ 35,149</b>
<b>Adjustments To Reconcile Excess (Deficiency) of Revenue Over Expenses To Net Cash Provided By Operating Activities:</b>			
Change In Assessments Receivable	(6)	-	(6)
Change In Interest Receivable	-	(7,970)	(7,970)
Change In Prepaid Insurance	(1,237)	-	(1,237)
Change In Prepaid Taxes	1,653	-	1,653
Change In Accounts Payable	172	-	172
Change In Deferred Assessments	-	(10,117)	(10,117)
Change In Prepaid Assessments	(4,999)	-	(4,999)
Change In Income Tax Payable	8,614	-	8,614
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>\$ 39,346</b>	<b>\$ (18,087)</b>	<b>\$ 21,259</b>

SEE INDEPENDENT AUDITORS' REPORT AND ACCOMPANYING NOTES



TREC MAINTENANCE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023

NOTE 1 NATURE OF ORGANIZATION

Treo Maintenance Association was incorporated on January 13, 2005, in the state of California. It is responsible for the operation and maintenance of the common property within the development, which is located in the city of Irvine, California. The development consists of 135 residential units.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The books of Treo Maintenance Association are maintained on the modified cash basis of accounting with entries made to convert them to the accrual basis for audit and tax purposes.

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.

Deferred Assessments (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred assessments (assessments received in advance-replacement fund) are recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The activity in deferred assessments (assessments received in advance-replacement fund) during 2023 was as follows:

Deferred Assessments, at January 1, 2023	\$ 1,324,599
Assessments Budgeted for Replacement Reserve	180,504
Revenue Released to Match Reserve Expenses	<u>(190,621)</u>
Deferred Assessments, at December 31, 2023	<u>\$ 1,314,482</u>

Cash Equivalents and Short-term Investments

Cash equivalents consist primarily of certificates of deposit and other securities with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as short-term investments. Cash equivalents and short-term investments are stated at cost, which approximates market value.

The Association maintains bank accounts at various financial institutions. During the course of the year, the accounts may fluctuate over the FDIC insured amount.

SEE INDEPENDENT AUDITORS' REPORT

TREC MAINTENANCE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023  
(CONTINUED)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 ninety days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The balances of assessments receivable as of the beginning and end of the year were \$32,251 and \$4,925, respectively.

Use of Estimates

The Association uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Credit Losses Implementation

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. This guidance represents a significant change in the accounting model for credit losses by requiring immediate recognition of management's estimates of "current expected credit losses". Under the prior model, losses were recognized only as they were incurred, which FASB has noted delayed recognition of expected losses that might not yet have met the threshold of being probable. The new model is applicable to all financial instruments that are not accounted for at fair value through net income, thereby bringing consistency in accounting treatment across different types of financial instruments and requiring consideration of a broader range of variables when forming loss estimates. The Association adopted this standard on January 1, 2023 by using a "Loss rate approach – Individual Evaluation". An allowance for expected credit losses is established for any account that is six months or older which has historically been reliable. The cumulative effect of adopting this new accounting policy resulted in no change to the beginning of the year allowance for expected credit losses or the operating fund balance.

Management believes that the historical loss information it has compiled is a reasonable basis on which to determine expected credit losses of assessments receivables held at December 31, 2023 because the composition of the member receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e. the similar risk characteristics of its members and its lending practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at December 31, 2023 totaled \$-0-.

Property and Equipment

Real property and common areas acquired by the original homeowners from the developer are owned by the individual owners in common and are not capitalized on the Association's financial statements.

Replacements and improvements to the real property and common areas also belong to the owners and are not capitalized on the Association's financial statements.

SEE INDEPENDENT AUDITORS' REPORT

TREC MAINTENANCE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023  
(CONTINUED)

NOTE 3 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 accounts and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund. Since the actual costs are dependent upon the frequency of occurrence and future costs, there is no assurance that this fund is adequate.

A study of the Association's funding program for the replacement of Association common areas, projected to December 31, 2023, indicates the Association's ideal cash replacement fund balance was \$ 1,607,567 at that date. The study recommends a 2024 contribution to the replacement fund of \$ 225,306 (\$ 139.08 per owner per month). The 2024 budgeted contribution is \$ 200,700.

The preparation of such a study involves significant estimates by the persons preparing the study, and these estimates are subject to annual revision for changing prices, circumstances and assumptions. If actual replacement costs exceed funds available, or where replacement of common areas is necessary where no fund has been previously established, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

NOTE 4 INCOME TAXES

The Association is a corporation that is potentially taxable on all of its net income, including unspent member assessments. However, under state and federal filing elections, the Association may choose to be taxed only on its net non-membership income, which includes interest income.

The State of California allows qualifying homeowner associations to file an election to be taxed under special rules. Under this election, income from members (such as assessments) is exempt from taxation.

Federal law offers a similar election, which must be made annually. However, net non-membership income under this election is taxed at a flat rate of 30%. If the Association chooses to file as a regular corporation, it may still exclude from taxation its net membership income by making certain elections. Tax at the regular corporate tax rate is generally lower. Some of these elections, however, have come under IRS attack and certain issues are yet to be clarified.

In 2023, the Association filed as a regular corporation for federal taxes, since it had an excess of maintenance expenses over membership source income. That excess may be carried over to future periods to offset future membership source income when the Association files as a regular corporation. This election is not related to the issues involved in the IRS audits.

Regardless of how the Association files its taxes, non-membership income (interest) may not be offset with membership expenses (such as common area maintenance costs). That is why the Association's taxable income can be greater than its net income as recorded in the financial statements.

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 IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2023, 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; however, there are currently no audits in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2019.

SEE INDEPENDENT AUDITORS' REPORT

TREC MAINTENANCE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023  
(CONTINUED)

NOTE 4 INCOME TAXES (Continued)

Federal and California income taxes have been accrued based on the taxable portion of the income reported in the accompanying financial statements. Income taxes for the current year were:

2023 INCOME TAXES	FEDERAL	STATE TAX	STATE FEE	TOTAL
Income Taxes	\$ 7,314	\$ 3,432	\$ -	\$ 10,746
Less: Credit from prior year return	(1,517)	(136)	-	(1,653)
Less: Estimated payments	-	(479)	-	(479)
<b>Income tax payable</b>	<b>\$ 5,797</b>	<b>\$ 2,817</b>	<b>\$ -</b>	<b>\$ 8,614</b>

NOTE 5 ASSESSMENTS

During 2023, assessments were billed at a rate of \$ 250 per unit per month. Effective January 1, 2024, the rate increased to \$ 275 per unit per month.

NOTE 6 SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2023, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is May 24, 2024, which is the date on which the financial statements were issued.

SEE INDEPENDENT AUDITORS' REPORT

SUPPLEMENTAL INFORMATION

TREC MAINTENANCE ASSOCIATION  
 SUPPLEMENTAL INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS  
 DECEMBER 31, 2023  
 (UNAUDITED)

The board of directors contracted an independent consultant who conducted a October 3, 2023 study, projected to December 31, 2023, to estimate the remaining useful lives and replacement costs of the components of common property. Funding requirements include an inflation factor of 3.0% and an Interest rate of 2.5%.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>	<u>2024 Funding Requirement</u>	<u>Recommended Fund Balances</u>
Streets	1 to 5 years	\$ 167,154	\$ 11,526	\$ 132,507
Roofs - Tile Repairs	0 years	29,170	27,027	29,170
Painting	3 years	348,990	61,442	163,226
Gates/Railing/Walls	3 to 17 years	384,111	23,088	270,002
Lighting	7 to 12 years	150,250	7,142	93,924
Decks/Doors	2 to 22 years	692,478	47,391	442,553
Building Exterior	1 to 17 years	328,110	21,466	197,160
Pressure Regulators	16 years	108,000	4,891	50,400
Grounds	2 to 10 years	48,900	3,437	32,339
Termite Control	3 years	174,375	11,319	149,464
Contingency	n/a	-	6,577	46,822
		<u>\$ 2,429,538</u>	<u>\$ 225,306</u>	<u>\$ 1,607,567</u>

As shown above, the study recommends a cash replacement balance of \$1,607,567 as of December 31, 2023 and contributions to reserves of \$225,306 during 2024. The Association's total replacement fund total assets at December 31, 2023 were \$1,314,482 or 81.77% of the recommended balance.

SEE INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION