

WILLOW HAVEN COMMUNITY ASSOCIATION

DATE: April 2023
TO: Willow Haven Community Association
FROM: Lori Yarborough, Chief Executive Office

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 August 31, 2021 has been completed. This audit was prepared by an independent CPA firm, Inouye, Shively, Klatt & McCorvey and has been accepted by the Board of Directors. You may view a copy of the complete audit at www.myhoa.com/willowhaven.

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 quarterly 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.

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To the Board of Directors and Members of
Willow Haven Community Association

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Willow Haven Community Association, which comprise the balance sheet as of August 31, 2021, 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.

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 Willow Haven Community Association as of August 31, 2021, 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.

Board of Directors and Members
Willow Haven Community Association

Emphasis of Matter on Future Major Repairs and Replacements

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 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 this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on future major repairs and replacements on page 10 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 CPAs, LLP

Inouye, Shively, Klatt & McCorvey

Laguna Hills, CA
December 7, 2021

WILLOW HAVEN COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF AUGUST 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 29,561	\$ 259,295	\$ 288,856
Investments	-	104,844	104,844
Assessments receivable	109,308	-	109,308
Allowance for doubtful accounts	(99,000)	-	(99,000)
Other receivables	8,481	-	8,481
Accrued interest receivable	-	53	53
Prepaid expenses	5,286	-	5,286
Security cameras	18,265	-	18,265
Accumulated depreciation	(18,265)	-	(18,265)
Interfund account	(64,000)	64,000	-
Total assets (deficit)	<u>(10,364)</u>	<u>428,192</u>	<u>417,828</u>
Liabilities			
Accounts payable	13,844	-	13,844
Prepaid/deferred assessments	13,750	428,192	441,942
Refundable deposits	8,125	-	8,125
Other payables	121	-	121
	<u>35,840</u>	<u>428,192</u>	<u>464,032</u>
Fund balances (deficit)	<u>(46,204)</u>	<u>-</u>	<u>(46,204)</u>
Total liabilities and fund balances (deficit)	<u>\$ (10,364)</u>	<u>\$ 428,192</u>	<u>\$ 417,828</u>

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

WILLOW HAVEN COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED AUGUST 31, 2021

	Operating Fund	Replacement Fund	Total
Revenues			
Member assessments	\$ 325,280	\$ 75,379	\$ 400,659
Special assessments	19,065	-	19,065
Sub-meter income	80,373	-	80,373
Investment income	-	400	400
Recovery of bad debt	20,000	-	20,000
Other income	11,796	-	11,796
Total revenues	456,514	75,779	532,293
Expenses			
Landscape services	48,854	22,574	71,428
Pool/spa services	11,873	16,434	28,307
General maintenance and repairs	50,756	3,686	54,442
Security/patrol services	15,220	-	15,220
Pest control	3,650	-	3,650
Janitorial services	3,534	-	3,534
Street sweeping	2,068	-	2,068
Water	128,229	-	128,229
Electricity	26,180	-	26,180
Gas	1,657	-	1,657
Telephone/cable	4,420	-	4,420
Management fees	27,720	-	27,720
Office supplies/printing/postage	1,619	-	1,619
Insurance	26,575	-	26,575
Legal and collection	43,252	-	43,252
Audit/tax preparation/reserve study	1,925	-	1,925
General and administrative	5,792	-	5,792
Security cameras	-	1,866	1,866
Lighting/electrical	-	6,783	6,783
Doors	-	1,860	1,860
Gates	-	1,419	1,419
Roofs	-	15,506	15,506
Plumbing	-	5,651	5,651
Total expenses	403,324	75,779	479,103
Excess of revenues over expenses	53,190	-	53,190
Beginning fund balances (deficit)	(99,394)	-	(99,394)
Ending fund balances (deficit)	\$ (46,204)	\$ -	\$ (46,204)

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

WILLOW HAVEN COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2021

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 53,190	\$ -	\$ 53,190
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Increase in net assessments receivable	(2,048)	-	(2,048)
Decrease in accrued interest receivable	-	234	234
Increase in prepaid expenses	(3,913)	-	(3,913)
Decrease in accounts payable	(15,399)	(1,867)	(17,266)
Increase (decrease) in prepaid/deferred assessments	(4,196)	16,601	12,405
Decrease in other payables	(29)	-	(29)
Total adjustments	(32,699)	14,968	(17,731)
Net cash provided by operating activities	20,491	14,968	35,459
Cash flows from investing activities:			
Purchase of investments - net	-	(634)	(634)
Net cash used in investing activities	-	(634)	(634)
Cash flows from financing activities:			
Change in interfund payable balances	6,670	(6,670)	-
Net cash provided by (used in) financing activities	6,670	(6,670)	-
Net increase in cash and cash equivalents	27,161	7,664	34,825
Cash and cash equivalents at beginning of year	2,400	251,631	254,031
Cash and cash equivalents at end of year	\$ 29,561	\$ 259,295	\$ 288,856
Supplemental disclosures			
Income taxes paid	\$ 440	\$ -	\$ 440

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

WILLOW HAVEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2021

NOTE 1 - NATURE OF ORGANIZATION

Willow Haven Community Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 155 residential units occupying a site in Temecula, California and was incorporated on September 17, 2004.

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 - 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. The Association has previously capitalized security cameras and has fully depreciated them over an estimated 7-year life.

(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 September 2022. 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 December 7, 2021, the date the financial statements were available to be issued.

WILLOW HAVEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2021

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, 2021, the budgeted contribution to the replacement fund was \$91,980.

The Association's reserve funding policy was based on a study conducted in July 2021, 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 \$851,927. As of August 31, 2021, the actual available replacement fund balance was \$364,192. The study recommends an annual member contribution of \$96,579. The Association's 2021/2022 budget includes a reserve contribution of \$157,080.

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, 2021, 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 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 \$123 per unit was levied. The funds are to help replenish the operating fund balance deficit.

WILLOW HAVEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2021

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 \$127,260 and \$109,308, 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 \$429,537 and \$441,942, 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, 2021, the Association had deposits with Union Bank that exceeded the FDIC coverage limit by approximately \$73,000.

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, 2021, 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.

NOTE 11 - RELATED PARTY TRANSACTION

The Association's landscape contractor is also a member of the Board of Directors. During the year ended August 31, 2021, approximately \$61,700 was paid to this contractor for services rendered.

WILLOW HAVEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
AUGUST 31, 2021

NOTE 12 - 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.

WILLOW HAVEN COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
AS OF AUGUST 31, 2021
(UNAUDITED)

A study was conducted in July 2021, 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 2%, scheduled annual contribution increase of 2%, and an investment rate of 1.5% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$851,927. As of August 31, 2021, the actual available replacement fund balance was \$364,192. The study recommends an annual member contribution of \$96,579. The Association's 2021/2022 budget includes a reserve contribution of \$157,080.

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
Streets & Drives	3 – 13	\$ 303,847
Lighting	11	136,760
Grounds	1 – 13	123,792
Landscape	0 – 8	50,000
Fencing	0 – 4	33,673
Buildings	0 – 8	255,829
Painting	0 – 6	327,757
Roofs	6	50,000
Pools & Spas	0 – 11	94,623
Total		<u>\$ 1,376,281</u>