



# W O O D B U R Y

September 21, 2020

RE: Woodbury Community Association  
2019-2020 Audit Report

Dear Woodbury Community Association Homeowner:

Enclosed, please find a copy of the Woodbury Community Association year end report as of May 31, 2020. This is being distributed to you in accordance with California Civil Code 5305, which states in part; "a review of the financial statement of the association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year".

This report shall be distributed annually to each member of the association within one hundred and twenty (120) days after each accounting year end. The year end for the Woodbury Community Association is May 31<sup>st</sup>.

Please take a few moments of your time to review the enclosed as it outlines the financial condition of your association. This report was prepared by the independent firm of Inouye, Shively, Klatt & McCorvey, LLP. It is recommended that you retain this document with your permanent property records.

Upon your receipt and review of the enclosed, should you have any questions, please do not hesitate to contact the undersigned at (949) 451-1654.

Sincerely,

At the Direction of the Board of Directors,  
Woodbury Community Association

*Susan Seifen*

Susan Seifen  
General Manager

Enclosure



## W O O D B U R Y

### Woodbury Community Association Annual Maintenance Inspection Report Summary

In accordance with Article X, Section 7 of the Master Declaration of Covenants, Conditions, and Restrictions, the Woodbury Community Association Board of Directors recently contracted for an annual maintenance inspection of the Master Association Property and Maintenance Areas, including all of the pool and park facilities, the site amenities, the landscaping areas and the monuments and towers maintained by the Association at the time that the inspection was conducted.

#### **Summary of Inspection's Findings**

La Jolla Pacific, Inc. conducted the inspection and produced a comprehensive report on its findings on April 15, 2020. According to the report, the Association's properties were found to generally be in good condition. The landscaping and monuments and towers were found to be in generally good condition. Additionally, the site amenities, such as pool furniture, barbecues, drinking fountains, fencing, trellises, etc. were found to be clean and in good condition. The pool equipment rooms were found to be clean and in good condition.

Various miscellaneous routine repair items were identified at several pool and park facilities. These issues identified during the inspection have been addressed and/or repaired or are in the process of being addressed and/or repaired.

#### **Description of Maintenance Planned for Ensuing Fiscal Year**

The Association will continue the program of regular maintenance of the Master Association Property and Maintenance Areas in the ensuing fiscal year. At this time, the specific replacement projects currently scheduled for the ensuing fiscal year are replacing the following: pool furniture at Peppertree Square, water heaters for the Lagoon, Resort, Competition and Peppertree Square showers/restrooms and various pool components.

#### **Update on Status of Recommended Maintenance from Preceding Year**

All of the maintenance, replacement and/or repair needs recommended as part of the annual maintenance inspection conducted in 2019 have been completed.

If you have any questions or would like a copy of the annual maintenance inspection report, please contact Susan Seifen, General Manager, at 949/451-1654 or at [sseifen@keystonepacific.com](mailto:sseifen@keystonepacific.com).



Member:  
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To the Board of Directors and Members of  
Woodbury Community Association

## **INDEPENDENT AUDITOR'S REPORT**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Woodbury Community Association, which comprise the balance sheet as of May 31, 2020, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

### **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 Woodbury Community Association as of May 31, 2020, 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  
Woodbury 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 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 CPAs, LLP**

*Inouye, Shively, & Klatt*

Laguna Hills, CA  
August 17, 2020

**WOODBURY COMMUNITY ASSOCIATION**

BALANCE SHEET  
AS OF MAY 31, 2020

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 676,595	\$ 2,311,195	\$ 2,987,790
Investments	492,000	3,572,000	4,064,000
Assessments receivable	114,451	-	114,451
Allowance for doubtful accounts	(43,580)	-	(43,580)
Other receivables	262	-	262
Accrued interest receivable	1,329	10,631	11,960
Prepaid expenses	17,483	-	17,483
Furniture and equipment	112,197	-	112,197
Accumulated depreciation	(103,222)	-	(103,222)
<b>Total assets</b>	<b>1,267,515</b>	<b>5,893,826</b>	<b>7,161,341</b>
<b>Liabilities</b>			
Accounts payable	101,334	16,269	117,603
Prepaid/deferred assessments	98,922	5,877,557	5,976,479
Refundable deposits	6,470	-	6,470
Income taxes payable	2,147	-	2,147
	208,873	5,893,826	6,102,699
<b>Fund balances</b>	<b>1,058,642</b>	<b>-</b>	<b>1,058,642</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,267,515</b>	<b>\$ 5,893,826</b>	<b>\$ 7,161,341</b>

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

**WOODBURY COMMUNITY ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MAY 31, 2020**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenues</b>			
Member assessments	\$ 2,832,300	\$ 1,775,925	\$ 4,608,225
Investment income	20,328	112,619	132,947
Clubhouse rental	15,371	-	15,371
Recreation income	7,485	-	7,485
Other income	74,496	-	74,496
<b>Total revenues</b>	<b>2,949,980</b>	<b>1,888,544</b>	<b>4,838,524</b>
<b>Expenses</b>			
Landscape services	994,563	619,425	1,613,988
Pool/spa services	302,393	281,731	584,124
General maintenance and repairs	257,440	27,442	284,882
Security/patrol services	120,634	-	120,634
Pest control	22,381	-	22,381
Janitorial services	191,815	-	191,815
Street sweeping	3,565	-	3,565
Water	166,747	-	166,747
Electricity	144,164	-	144,164
Gas	65,455	-	65,455
Telephone	19,368	-	19,368
Internet	12,758	-	12,758
Refuse	16,790	-	16,790
Plumbing	31,547	-	31,547
Management fees	423,612	-	423,612
Office supplies/printing/postage	5,676	-	5,676
Insurance	42,879	-	42,879
Legal and collection	35,316	-	35,316
Audit/tax preparation/reserve study	6,020	-	6,020
General and administrative	41,672	-	41,672
Provision for doubtful accounts	28,905	-	28,905
Architectural services	3,625	-	3,625
Resident activities	119,252	-	119,252
Salaries and related	31,696	-	31,696
Depreciation	11,861	-	11,861
Painting	-	94,210	94,210
Grounds	-	32,437	32,437
Lighting	-	60,137	60,137
Recreation center	-	480,778	480,778
Parks	-	252,733	252,733
Mailboxes	-	5,475	5,475
Monument & signs	-	34,176	34,176
Income tax	45,897	-	45,897
<b>Total expenses</b>	<b>3,146,031</b>	<b>1,888,544</b>	<b>5,034,575</b>
Deficiency of revenues over expenses	(196,051)	-	(196,051)
Beginning fund balances	1,254,693	-	1,254,693
<b>Ending fund balances</b>	<b>\$ 1,058,642</b>	<b>\$ -</b>	<b>\$ 1,058,642</b>

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

**WOODBURY COMMUNITY ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MAY 31, 2020**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Deficiency of revenues over expenses	\$ (196,051)	\$ -	\$ (196,051)
Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities			
Depreciation	11,861	-	11,861
Increase in net assessments receivable	(66,070)	-	(66,070)
Increase in other receivables	(204)	-	(204)
Decrease in water reimbursement receivable	28,905	-	28,905
Decrease in accrued interest receivable	1,515	12,395	13,910
Increase in prepaid expenses	(2,211)	-	(2,211)
Increase (decrease) in accounts payable	(11,928)	327	(11,601)
Decrease in prepaid/deferred assessments	(20,280)	(240,225)	(260,505)
Decrease in refundable deposits	(38,225)	-	(38,225)
Decrease in income tax payable	(20,476)	-	(20,476)
Total adjustments	(117,113)	(227,503)	(344,616)
Net cash used in operating activities	(313,164)	(227,503)	(540,667)
<b>Cash flows from investing activities:</b>			
Purchase of investments - net	500,000	1,843,000	2,343,000
Net cash used in investing activities	500,000	1,843,000	2,343,000
<b>Net increase in cash and cash equivalents</b>	186,836	1,615,497	1,802,333
Cash and cash equivalents at beginning of year	489,759	695,698	1,185,457
Cash and cash equivalents at end of year	\$ 676,595	\$ 2,311,195	\$ 2,987,790
<b>Supplemental disclosures</b>			
Income taxes paid	\$ 66,373	\$ -	\$ 66,373

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

**WOODBURY COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MAY 31, 2020**

**NOTE 1 - NATURE OF ORGANIZATION**

Woodbury Community Association ("Association") is a nonprofit mutual benefit corporation responsible for preserving and maintaining the common property within the development. The Association consists of 4,068 residential units (926 single family units, 1,408 condominium units, and 6 apartment complexes consisting of 1,734 units) occupying a site in Irvine, California and was incorporated on June 10, 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.

(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 range from August 2020 to February 2023. 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 August 17, 2020, the date the financial statements were available to be issued.



**WOODBURY COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MAY 31, 2020**

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

The Association is in compliance with its governing documents that require funds be accumulated for future major repairs and replacements of common property components. Substantially all accumulated funds are held in separate accounts and are generally not available for normal operating purposes. For the year ended May 31, 2020, \$1,535,700 was contributed to the replacement fund.

The Association's reserve funding policy was based on a study conducted in January 2020, by an independent analyst to estimate the remaining useful lives and costs of future major repairs and replacements of common property components. The study recommends a fully funded reserve balance of \$8,581,768. As of May 31, 2020, the actual available replacement fund balance was \$5,877,557. The study recommends an annual member contribution of \$2,141,264. The Association's 2020/2021 budget includes a reserve contribution of \$2,141,265.

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

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

**NOTE 5 - MEMBER ASSESSMENTS**

Association members are subject to paying monthly assessments to fund the Association's operating activities and future major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when the funds are expended for their designated purpose. The annual budget and member assessments are determined by the Board of Directors. The Association retains excess funds at the end of the year, if any, for use in future periods.

**WOODBURY COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**MAY 31, 2020**

**NOTE 6 - ASSESSMENTS RECEIVABLE**

Assessments receivable represent assessments and other fees due from members and are stated at the amounts expected to be collected. The Association's governing documents provide for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner. 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 \$65,801 and \$114,451, 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 management and/or the Board of Directors.

Receivable balances are written off once all collection alternatives have been exhausted and the Board of Directors has deemed them uncollectible.

**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 \$119,202 and \$5,976,479, respectively.

**NOTE 8 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate-Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of June 01, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of June 01, 2019. Adoption of the new guidance resulted in changes to the Association's accounting policies for assessment revenue and prepaid assessments, as previously described.

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

Beginning fund balances as previously reported	\$ 7,372,475
Adjustment	<u>(6,117,782)</u>
Beginning fund balances as adjusted	<u><u>\$ 1,254,693</u></u>

**WOODBURY COMMUNITY ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
MAY 31, 2020

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

The effect of the adoption is an increase in member assessments by \$240,225 and a recording of prepaid/deferred assessments of \$5,877,557. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

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

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported (Total Column)
Prepaid/deferred assessments	\$ 98,922	\$ 5,877,557	\$ 5,976,479
Ending fund balances	6,936,119	(5,877,557)	1,058,642
Member assessments	4,368,000	240,225	4,608,225
Deficiency of revenues over expenses	(436,276)	240,225	(196,051)
Change in prepaid/deferred assessments	(20,280)	(240,225)	(260,505)

**NOTE 9 - CONCENTRATION OF CREDIT RISK**

The Federal Deposit Insurance Corporation (FDIC) standard coverage amount is \$250,000 per depositor, per insured bank. As of May 31, 2020, the Association had deposits with Pacific Premier Bank that exceeded the FDIC coverage limit by approximately \$573,000.

**NOTE 10 - REFUNDABLE DEPOSITS**

The Association collects deposits from homeowners to ensure compliance with certain architectural and other requirements. The deposits are generally not available for normal operating purposes, and are refunded upon satisfactory completion of the particular requirement. If the requirements are not met within a certain period of time, the Association may apply and collect penalties from the deposited funds.

**NOTE 11 - CONTINGENCY**

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

**WOODBURY COMMUNITY ASSOCIATION**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**  
**REPAIRS AND REPLACEMENTS**  
**AS OF MAY 31, 2020**  
**(UNAUDITED)**

A study was conducted in January 2020, by an independent analyst to estimate the remaining useful lives and the repair and replacement costs of common property components. The study was based on information provided by management, the Board of Directors, and Association vendors, as well as the knowledge and experience of the analyst. The study preparer may also use published manuals such as construction estimators, appraisal handbooks and valuation guides to estimate costs and remaining useful lives. The estimated costs were based on current estimated repair and replacement costs at the time of the study. Funding requirements consider an inflation rate of 2%, scheduled annual contribution increase of 2%, and an investment rate of 1% on accumulated replacement funds. The study recommends a fully funded reserve balance of \$8,581,768. As of May 31, 2020, the actual available replacement fund balance was \$5,877,557. The study recommends an annual member contribution of \$2,141,264. The Association's 2020/2021 budget includes a reserve contribution of \$2,141,265.

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
Concrete	4 – 11	\$ 71,747
Streets	1 – 13	783,196
Roofs	16	492,970
Paint	0 – 8	274,610
Fencing/walls	2 – 18	1,042,699
Lighting	1 – 19	1,562,408
Park	0 – 19	2,287,748
Pool/spa areas	0 – 22	2,153,183
Rec center	0 – 24	3,217,270
Grounds	1 – 15	448,501
Mailboxes	11	522,434
Signs	0 – 23	322,809
Irrigation	5 – 17	705,338
Landscape	0	936,781
Total		<u>\$ 14,821,694</u>