

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**FINANCIAL STATEMENTS  
AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

**YEARS ENDED JUNE 30, 2023 AND 2022**

**LEVY, ERLANGER & COMPANY LLP  
Certified Public Accountants  
San Francisco, California**

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**CONTENTS  
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>Page(s)</u>
<b>INDEPENDENT ACCOUNTANT'S REVIEW REPORT</b>	1 - 2
<b>BALANCE SHEETS</b>	3
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES</b>	4 - 5
<b>STATEMENTS OF CASH FLOWS</b>	6 - 7
<b>NOTES TO FINANCIAL STATEMENTS</b>	8 - 13
<b>SUPPLEMENTARY INFORMATION</b>	
Supplementary Information On Future Major Repairs And Replacements At June 30, 2023	14 - 19

**LEVY, ERLANGER & COMPANY LLP**  
Certified Public Accountants

100 Montgomery Street, Suite 715  
San Francisco, CA 94104

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

Board Of Directors  
**Lake Don Pedro Owners' Association**  
La Grange, California

We have reviewed the accompanying financial statements of **Lake Don Pedro Owners' Association** (the Association) which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of revenues, expenses and changes in fund balances and cash flows, for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**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.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of **Lake Don Pedro Owners' Association** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

### **Accountant's Conclusion**

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Future Major Repairs and Replacements**

As further discussed in the notes to the financial statements, the Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting replacement reserve funding plan is a function of the completeness of the major component list and the accuracy of the estimated quantity, useful and remaining lives, and replacement costs of those components.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until sufficient funds are available.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed or compiled the required supplementary information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

*Levy Elmer & Company LLP*

August 16, 2023

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**BALANCE SHEETS  
JUNE 30, 2023 AND 2022**

	<u>2023</u>			<u>2022</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 307,387	\$ 95,930	\$ 403,317	\$ 1,008,464
Investment in certificates of deposit (Note 2)		554,677	554,677	
Assessments receivable, less allowance for doubtful accounts of \$127,000 and \$124,000, respectively (Note 2)	7,939		7,939	3,669
Prepaid insurance	29,513		29,513	20,807
Other assets	4,335		4,335	6,385
	<u>4,335</u>	<u>        </u>	<u>4,335</u>	<u>6,385</u>
Total assets	<u>\$ 349,174</u>	<u>\$ 650,607</u>	<u>\$ 999,781</u>	<u>\$ 1,039,325</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 13,682	\$ -	\$ 13,682	\$ 7,641
Assessments paid in advance	202,636		202,636	167,674
Refundable deposits	20,640		20,640	30,029
Income taxes payable	1,326	352	1,678	596
Vacation payable	7,059		7,059	6,288
Other liabilities	3,201		3,201	15,772
Contract liabilities - replacement reserve assessments paid in advance (Notes 2 and 4)		650,255	650,255	634,630
Future major repairs and replacements (Note 3)	-	-	-	-
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Total liabilities	<u>248,544</u>	<u>650,607</u>	<u>899,151</u>	<u>862,630</u>
<b>COMMITMENTS (NOTE 5)</b>				
	-	-	-	-
<b>FUND BALANCE (DEFICIT)</b>				
	<u>100,630</u>	<u>        </u>	<u>100,630</u>	<u>176,695</u>
Total liabilities and fund balance	<u>\$ 349,174</u>	<u>\$ 650,607</u>	<u>\$ 999,781</u>	<u>\$ 1,039,325</u>

See independent accountant's review report and accompanying notes.

## LAKE DON PEDRO OWNERS' ASSOCIATION

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>			<u>2022</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>REVENUES</b>				
Assessments (Notes 2 and 4)	\$ 302,200	\$ 22,421	\$ 324,621	\$ 295,186
Bad debt recovery (expense)	(10,067)		(10,067)	(12,474)
Interest income (Note 2)	23	5,948	5,971	1,038
Rental income	37,846		37,846	34,028
Late charges and other income	<u>52,870</u>		<u>52,870</u>	<u>61,327</u>
Total revenues	<u>382,872</u>	<u>28,369</u>	<u>411,241</u>	<u>379,105</u>
<b>EXPENSES</b>				
<u>Administration</u>				
Income tax provision (Note 2)	1,326	352	1,678	596
Insurance	54,535		54,535	35,688
Legal and accounting	5,141		5,141	4,923
Newsletter	12,193		12,193	12,805
Office, printing and postage	50,769		50,769	44,941
Reserve study	<u>3,200</u>		<u>3,200</u>	<u>300</u>
	<u>127,164</u>	<u>352</u>	<u>127,516</u>	<u>99,253</u>
<u>Maintenance and operations</u>				
Hacienda expenses	13,437	-	13,437	9,446
Janitorial services	24,372		24,372	18,681
Parks expense	11,792		11,792	2,182
Payroll, payroll taxes and benefits	191,950		191,950	172,157
Pool and spa maintenance	4,397		4,397	2,619
Septic maintenance and test	7,549		7,549	5,688
Other maintenance and operations	<u>5,120</u>		<u>5,120</u>	<u>5,081</u>
	<u>258,617</u>	<u>-</u>	<u>258,617</u>	<u>215,854</u>

See independent accountant's review report and accompanying notes.

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND BALANCES  
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>			<u>2022</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>EXPENSES (CONTINUED)</b>				
<u>Utilities</u>				
Garbage collection	\$ 5,300	\$ -	\$ 5,300	\$ 4,701
Gas and electricity	37,045		37,045	27,325
Water and sewer	<u>2,765</u>		<u>2,765</u>	<u>2,610</u>
	<u>45,110</u>	<u>-</u>	<u>45,110</u>	<u>34,636</u>
<u>Major repairs and replacements</u>				
Entry and security system	-	4,340	4,340	-
Floors and coverings		2,364	2,364	
Landscaping, trees and irrigation				4,400
Paving		9,750	9,750	
Pergola				2,847
Sewer and drainage				3,213
Other major repairs and replacements		<u>11,563</u>	<u>11,563</u>	<u>3,500</u>
	<u>-</u>	<u>28,017</u>	<u>28,017</u>	<u>13,960</u>
Total expenses	<u>430,891</u>	<u>28,369</u>	<u>459,260</u>	<u>363,703</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(48,019)	-	(48,019)	15,402
<b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	(28,046)	-	(28,046)	(13,960)
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	<u>176,695</u>	<u>-</u>	<u>176,695</u>	<u>175,253</u>
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<u>\$ 100,630</u>	<u>\$ -</u>	<u>\$ 100,630</u>	<u>\$ 176,695</u>

See independent accountant's review report and accompanying notes.

## LAKE DON PEDRO OWNERS' ASSOCIATION

### STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2023 AND 2022

	2023			2022
	Operations Fund	Replacement Fund	Total Funds	Total Funds
<b>OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenues over expenses	\$ (48,019)	\$ -	\$ (48,019)	\$ 15,402
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Bad debt (recovery) expense	10,067	-	10,067	12,474
Decrease (increase) in assets:				
Assessments receivable	(14,337)		(14,337)	(12,162)
Other assets	2,050		2,050	(1,851)
Prepaid insurance	(8,706)		(8,706)	18
Increase (decrease) in liabilities:				
Accounts payable	6,041		6,041	3,743
Refundable deposits	(9,389)		(9,389)	20,075
Assessments paid in advance	34,962		34,962	(2,048)
Other liabilities	(12,571)		(12,571)	1,571
Income taxes payable	760	322	1,082	596
Vacation payable	771		771	378
Contract liabilities - replacement reserve assessments paid in advance		15,625	15,625	30,974
Total adjustments	9,648	15,947	25,595	53,768
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	(38,371)	15,947	(22,424)	69,170
<b>INVESTING ACTIVITIES</b>				
Net (purchase) sale of certificates of deposit	-	(554,677)	(554,677)	-
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	-	(554,677)	(554,677)	-

See independent accountant's review report and accompanying notes.



**LAKE DON PEDRO OWNERS' ASSOCIATION**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2023 AND 2022**

	<u>2023</u>			<u>2022</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (38,371)	\$ (538,730)	\$ (577,101)	\$ 69,170
<b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	(28,046)	-	(28,046)	(13,960)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>373,804</u>	<u>634,660</u>	<u>1,008,464</u>	<u>953,254</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 307,387</u>	<u>\$ 95,930</u>	<u>\$ 403,317</u>	<u>\$ 1,008,464</u>
<u>Supplemental Disclosures</u>				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 566</u>	<u>\$ 30</u>	<u>\$ 596</u>	<u>\$ -</u>

See independent accountant's review report and accompanying notes.

# **LAKE DON PEDRO OWNERS' ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022**

### **1. THE ASSOCIATION**

**Lake Don Pedro Owners' Association** (the Association) is a common interest development located in La Grange, California which consists of 3122 lots and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in August 1968 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Assessments.** Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose. The Association's policy is to account for reserve fund expenditures using reserve fund assessments before reserve fund interest income.

**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 owners whose assessments are delinquent. 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 estimate of allowance for doubtful accounts, if any, is based, generally on amounts past due greater than 90 to 120 days.

**Basis of presentation.** The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

See independent accountant's review report.

## **LAKE DON PEDRO OWNERS' ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and cash equivalents.** For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents are classified with cash in the balance sheet.

**Concentrations of credit risk.** Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Association maintains its financial instruments with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash, cash equivalents and investments in excess of federal deposit insurance (FDIC) coverage limits as of June 30, 2023 totaled approximately \$707,000.

**Contract liabilities - replacement reserve assessments paid in advance.** The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability - replacement reserve assessments paid in advance is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

**Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

**Fund accounting.** The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the 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 two funds established according to their nature and purpose. The operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

See independent accountant's review report.

## **LAKE DON PEDRO OWNERS' ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income taxes** are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income, less related nonmembership expenses, subject to federal and California income taxes includes interest earned on cash and cash equivalents, and investments.

For federal purposes, the Association has received exemption from tax under IRC Section 501(c)(7) and is subject to tax on net nonmembership income at 21%. California income taxes approximate 9% of taxable income.

The Association's tax filings are subject to audit by various taxing authorities: federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service and California income tax returns for the previous four years remain open to examination by the Franchise Tax Board. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

**Interest earned** on operations and replacement funds, net of related income taxes, is retained in said respective funds. With the implementation of FASB ASC 606 new accounting guidance, reported replacement reserve interest income may be less than earned.

**Investments** consist of federally-insured certificates of deposit stated at cost which approximates market value.

**Membership** in the Association is mandatory by virtue of unit ownership.

**Real and personal common property** acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board Of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

See independent accountant's review report.

## **LAKE DON PEDRO OWNERS' ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 AND 2022**

#### **3. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association's governing documents, and California state law (Civil Code Section 5300), require that the Board Of Directors provide for the repair and replacement of Association common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of day-to-day operating expenses.

The Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting reserve funding plan is a function of the completeness of the major component list, the accuracy of the estimated quantity, useful and remaining lives and current replacement costs of those components, and the reasonableness of significant funding assumptions, including but not limited to the projected major component cost increases (aka inflation) and interest earning rate(s) on replacement fund cash balances.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material.

Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until funds are available.

Additional information about future major repairs and replacements may be found in the annually-distributed pro forma operating budget and related assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 5300).

See independent accountant's review report.

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2023 AND 2022**

**4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION**

The Financial Accounting Standards Board (FASB) has issued new guidance that created Accounting Standards Codification (ASC) Topic 606. This new guidance supercedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRAs), Revenue Recognition, and now 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 (i.e. the accumulation of unspent replacement reserve cash and investments from assessment payments over time which are eventually to be used for common area major repairs and replacements).

The Association has adopted the new guidance as of July 1, 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 July 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenues and contract liabilities - replacement reserve assessments paid in advance.

<b><u>2021-2022 Assessment Revenues Reconciliation</u></b>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<b><u>Total Funds</u></b>
Assessment revenues <b><u>per budget</u></b>	\$ 282,200	\$ 30,000	\$ <b>312,200</b>
Effects of applying <b><u>new guidance</u></b>			
Reclassify <b>interfund transfers</b>	-	13,960	<b>13,960</b>
Adjust <b>revenues to equal expenses</b>	-	(30,974)	<b>(30,974)</b>
Total effects of new guidance	-	(17,014)	<b>(17,014)</b>
Assessment revenues <b><u>per financial statements</u></b>	<u>\$ 282,200</u>	<u>\$ 12,986</u>	<u>\$ <b>295,186</b></u>
<b><u>2022-2023 Assessment Revenues Reconciliation</u></b>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<b><u>Total Funds</u></b>
Assessment revenues <b><u>per budget</u></b>	\$ 302,200	\$ 10,000	\$ <b>312,200</b>
Effects of applying <b><u>new guidance</u></b>			
Reclassify <b>interfund transfers</b>	-	28,046	<b>28,046</b>
Adjust <b>revenues to equal expenses</b>	-	(15,625)	<b>(15,625)</b>
Total effects of new guidance	-	12,421	<b>12,421</b>
Assessment revenues <b><u>per financial statements</u></b>	<u>\$ 302,200</u>	<u>\$ 22,421</u>	<u>\$ <b>324,621</b></u>

See independent accountant's review report.

**LAKE DON PEDRO OWNERS' ASSOCIATION**

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
JUNE 30, 2023  
(UNAUDITED)**

**5. COMMITMENTS**

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

**6. DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 16, 2023, the date that the financial statements were available to be issued.

See independent accountant's review report and accompanying notes.