



Monarch Bay Terrace Property Owners Association

October 11, 2022

RE: Monarch Bay Terrace Property Owners Association
2021-2022 Audit Report

Dear Monarch Bay Terrace Property Owners Association Homeowner:

Enclosed, please find a copy of Monarch Bay Terrace Property Owners Association year-end report as of June 30, 2022. This report is to be distributed annually to each member of the association.

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 VanDerPol and Associates. 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 ddepledge@keystonepacific.com

Sincerely,

At the Direction of the Board of Directors,
Monarch Bay Terrace Property Owners Association

Donna DePledge

Donna DePledge, CMCA, AMS
Senior Community Association Manager

Enclosure

MONARCH BAY TERRACE
PROPERTY OWNERS ASSOCIATION
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2022

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION

Table of Contents

Independent Auditors' Report	Pages 3-5
Balance Sheet	Page 6
Statement of Revenues, Expenses and Changes in Fund Balances	Page 7
Statement of Cash Flows	Page 8
Notes to Financial Statements	Pages 9-12

VanDerPol and Company

A Professional Accountancy Corporation

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Monarch Bay Terrace Property Owners Association

Opinion

We have audited the accompanying financial statements of Monarch Bay Terrace Property Owners Association, which comprise the balance sheet as of June 30, 2022, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Monarch Bay Terrace Property Owners Association as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Monarch Bay Terrace Property Owners 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, including omissions, 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 Monarch Bay Terrace Property Owners 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 Monarch Bay Terrace Property Owners 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 supplementary information on future major repairs and replacements of common property 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, as discussed in Note 6 of the Notes to Financial Statements, a study evaluating the Association's future major repair and replacement obligations, commonly referred to as a reserve study has not been conducted. Accordingly, the required supplementary information has not been included with these financial statements.

Van Der Pol and Company

VANDERPOL AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

September 6, 2022

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
BALANCE SHEET
AS OF JUNE 30, 2022

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents [Note 8]	\$ 88,046	\$ 202,299	\$ 290,345
Prepaid insurance	3,895	--	3,895
Due (to)/from fund	(50,000)	50,000	--
Total Assets	\$ 41,941	\$ 252,299	\$ 294,240
 LIABILITIES			
Accounts payable	\$ 410	\$ --	\$ 410
Prepaid assessments	19,873	--	19,873
Refundable deposits	6,000	--	6,000
Contract liability [Note 4]	--	251,817	251,817
Total Liabilities	26,283	251,817	278,100
 FUND BALANCES	 15,658	 482	 16,140
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 41,941	 \$ 252,299	 \$ 294,240

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

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2022

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments [Note 3]	\$ 78,521	\$ --	\$ 78,521
Interest	--	129	129
Other income	14,990	--	14,990
Total Revenues	93,511	129	93,640
EXPENSES			
Utilities:			
Electricity	371	--	371
Water	3,919	--	3,919
Maintenance:			
Landscape maintenance and supplies	10,780	--	10,780
Lighting maintenance and supplies	1,428	--	1,428
Other common area maintenance	6,302	--	6,302
Administrative:			
Insurance	8,010	--	8,010
Management fees	40,492	--	40,492
Legal fees and related expenses	23,017	--	23,017
Other professional fees	6,991	--	6,991
Administrative expenses	2,071	--	2,071
Total Expenses	103,381	--	103,381
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	(9,870)	129	(9,741)
Beginning Fund Balances	25,528	353	25,881
Ending Fund Balances	\$ 15,658	\$ 482	\$ 16,140

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

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess of revenues over/(under) expenses	\$ (9,870)	\$ 129	\$ (9,741)
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:			
Increase in prepaid insurance	(780)	--	(780)
Decrease in accounts payable	(158)	--	(158)
Increase in prepaid assessments	2,109	--	2,109
Increase in refundable deposits	2,375	--	2,375
Increase in contract liability	--	9,468	9,468
Change in due to/(from) fund	<u>50,000</u>	<u>(50,000)</u>	<u>--</u>
Net Increase/(decrease) in cash	43,676	(40,403)	3,273
Cash at beginning of year	<u>44,370</u>	<u>242,702</u>	<u>287,072</u>
Cash at end of year	<u>\$ 88,046</u>	<u>\$ 202,299</u>	<u>\$ 290,345</u>

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

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1. ORGANIZATION

Monarch Bay Terrace Property Owners Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in February 1975. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 343 residential units and is located in Dana Point, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Association are maintained on a modified accrual basis of accounting. For these financial statements, adjustments have been made at June 30, 2022 to convert the Association's records to the full accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

Capitalization Policy and Depreciation - In accordance with industry standards, the Association has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either the Operating Fund or the Replacement Fund in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended June 30, 2022, there were no significant personal property additions.

Fund Accounting - The Association's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, financial resources are separated into two categories, the Operating Fund and the Replacement Fund. Disbursements from the Replacement Fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the Operating Fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

Investment Income - The Board's policy is to allocate interest earned on Replacement Fund cash accounts to the Replacement Fund, and to pay the related income taxes out of the Operating Fund.

Use of 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 and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected.

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE – (CONTINUED)

Under the revenue recognition standard of ASC 606 [Note 5], the Association (an entity) has a performance obligation to the unit/unit owners (customers). The Association's approved annual Operating Fund budget establishes the maintenance, management, and administrative services that the Association is obligated to perform. These services can be bundled together as a single commercial objective and a single performance obligation. The budget establishes an implied contract price, and because these services are provided within an annual cycle, the respective Operating Fund assessments are considered revenue for the current period.

The performance obligations related to Replacement Fund assessments are satisfied when these financial resources are expended for their designated purpose.

Assessments are billed on an annual basis to homeowners; however, payment is voluntary. Accordingly, there are no remedies for non-payment of basic assessments. For the year ended June 30, 2022, the Association's annual assessment was \$420 per unit. For fiscal year ending June 30, 2023, the annual assessment is budgeted to remain at \$420 per unit.

Assessments receivable at June 30, 2021 represent assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner.

Under ASC 606, assessments and other fees that cannot be collected with certainty are now charged against the respective revenue rather than bad debt expense. Bad debt expense will still be used to account for uncollectible receivable balances that were recorded in prior periods.

NOTE 4. CONTRACT LIABILITY

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. For the year ended June 30, 2022, the Association assessed and allocated \$9,468 to the Replacement Fund. The contract liability balance at the beginning of the year and end of the year was \$242,349 and \$251,817, respectively.

NOTE 5. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a revenue recognition standard that affects businesses that enter into contracts with customers to transfer goods and services, including public, private and non-public entities. The purpose of the standard is to eliminate variations in the way businesses across industries handle accounting for similar transactions.

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

A current study evaluating the Association's future major repair and replacement obligations, commonly referred to as a reserve study, has not been conducted. Accordingly, required supplementary information about the current replacement costs and useful lives of the Association's common area components has not been included with these financial statements. However, for the year ended June 30, 2022, the Association funded \$9,468 from assessments to the Replacement Fund.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the Replacement Fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts collected for replacement obligations may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a homeowners association [under Internal Revenue Code Section 528]. For the year ended June 30, 2022, the Association elected to file as a homeowners association, where generally the association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For California purposes, the Association also qualifies for tax exempt status as a homeowners association under California Revenue and Taxation Code Section 23701t and pays a tax of 8.84% on income not related to membership dues and assessments. For the year ended June 30, 2022, there was no federal or California income tax expense.

The Association utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

MONARCH BAY TERRACE PROPERTY OWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 8. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At June 30, 2022, the Association maintained cash balances at the following institution:

Operating Fund:

Pacific Premier Bank - checking	<u>\$ 88,046</u>
---------------------------------	------------------

Replacement Fund:

Pacific Premier Bank - money market	<u>\$ 202,299</u>
-------------------------------------	-------------------

NOTE 9. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for income taxes for the year ended June 30, 2022. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 10. CONCENTRATION OF RISK

At June 30, 2022, the Association maintained funds at one financial institution whereby the cumulative balances on account exceeded the FDIC insurance limits of \$250,000. At June 30, 2022, \$40,345 was exposed to this risk.

NOTE 11. CONTINGENCY

The COVID-19 pandemic developed rapidly in 2020. Measures taken by various governments to contain the virus have affected economic activity. As a result, economic uncertainties have arisen. The financial impact, if any, and overall effects to the Association cannot be reasonably estimated at this time.

NOTE 12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 6, 2022, which is the date the financial statements were available to be issued.