

**Financial Statement Review (Required Civil Code Sec. 4525)
Cypress Landing OA**

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Cypress Landing Owners Association

(A California Corporation)

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2020
(With Summarized Comparative Totals for June 30, 2019)

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Independent Accountant's Review Report

Board of Directors and members
Cypress Landing Owners Association
Sunnyvale, California

We have reviewed the accompanying financial statements of Cypress Landing Owners Association, which comprise the balance sheet as of June 30, 2020, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 engagement 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.

Accountant's Conclusion on the Financial Statements

Based on our review, 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.

Summarized Comparative Information

We previously reviewed Cypress Landing Owners Association 2019 financial statements and in our conclusion dated August 27, 2019 stated that based on our review, we were not aware of any material modifications that should be made to the 2019 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended June 30, 2019, for it to be consistent with the reviewed financial statements from which it has been derived.

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 on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Young, Craig & Co. LLP

October 5, 2020

Cypress Landing Owners Association
 Balance Sheet
 June 30, 2020
 (With Summarized Comparative Total as of June 30, 2019)

	Operating Fund	Replacement Fund	Total	2019 Total Funds
ASSETS:				
Cash	\$ 51,675	\$ 324,620	\$ 376,295	\$ 337,094
Assessments receivable, No allowance for doubtful accounts	8,314	-	8,314	3,811
Prepaid insurance expense	2,581	-	2,581	1,445
Prepaid taxes	-	481	481	481
Common area (Note C)	-	-	-	-
TOTAL ASSETS	\$ 62,570	\$ 325,101	\$ 387,671	\$ 342,831
 LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 19,599	\$ -	\$ 19,599	\$ 15,341
Assessments received in advance	14,317	-	14,317	14,073
Owner electricity deposits	-	-	-	3,990
Contract liabilities (assessments received in advance)	-	325,101	325,101	310,065
TOTAL LIABILITIES	33,916	325,101	359,017	343,469
 Fund balances	28,654	-	28,654	(638)
TOTAL LIABILITIES AND FUND BALANCES	\$ 62,570	\$ 325,101	\$ 387,671	\$ 342,831

Cypress Landing Owners Association
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended June 30, 2020
(With Summarized Comparative Totals for the Year Ended June 30, 2019)

	Operating Fund	Replacement Fund	Total	2019 Total Funds
REVENUES:				
Regular assessments	\$ 236,385	\$ 21,948	\$ 258,333	\$ 248,516
Interest income	-	163	163	161
Electricity submetering income	27,356	-	27,356	20,710
Other	5,799	-	5,799	846
TOTAL REVENUES	269,540	22,111	291,651	270,233
EXPENSES:				
Landscape maintenance	17,474	-	17,474	16,842
Custodial service	43	-	43	4,711
Fire safety	15,754	-	15,754	12,449
Repair and maintenance	9,076	22,111	31,187	64,824
Spa	3,226	-	3,226	3,319
Gas and electric service	72,681	-	72,681	66,448
Water, sewer and garbage service	82,299	-	82,299	77,537
Submeter reading fee	2,565	-	2,565	2,629
Insurance	9,174	-	9,174	9,260
Financial management	6,954	-	6,954	6,537
Property management	12,983	-	12,983	15,364
Legal and accounting	4,193	-	4,193	2,195
Replacement fund study	2,020	-	2,020	2,295
Office and administration	1,796	-	1,796	3,032
Taxes (Note E)	10	-	10	10
TOTAL EXPENSES	240,248	22,111	262,359	287,452
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	29,292	-	29,292	(17,219)
BEGINNING FUND BALANCE (DEFICIT)	(638)	-	(638)	16,581
ENDING FUND BALANCE	\$ 28,654	\$ -	\$ 28,654	\$ (638)

Cypress Landing Owners Association
Statement of Cash Flow
For the Year Ended June 30, 2020
(With Summarized Comparative Totals for the Year Ended June 30, 2019)

	Operating Fund	Replacement Fund	Total	2019 Total Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
(Deficiency) excess of revenues over expenses	\$ 29,292	\$ -	\$ 29,292	\$ (17,219)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided (used) by operating activities:				
(Increase) decrease in:				
Assessments receivable	(4,503)	-	(4,503)	(443)
Prepaid insurance	(1,136)	-	(1,136)	(352)
Increase (decrease) in:				
Accounts payable	4,258	-	4,258	1,585
Assessments received in advance	244	-	244	4,281
Taxes payable	-	-	-	(10)
Owner electricity deposits	(3,990)	-	(3,990)	-
Contract liabilities (assessments received in advance)	-	15,036	15,036	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	24,165	15,036	39,201	(12,158)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Change in interfund borrowings	(4,532)	4,532	-	-
NET INCREASE (DECREASE) IN CASH	19,633	19,568	39,201	(12,158)
CASH AS OF:				
BEGINNING OF YEAR	32,042	305,052	337,094	349,252
END OF YEAR	\$ 51,675	\$ 324,620	\$ 376,295	\$ 337,094
SUPPLEMENTAL DISCLOSURE OF CASH PAID DURING THE YEAR FOR:				
Income taxes paid	\$ 10	\$ -	\$ 10	\$ 10

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note A – Nature of Organization

Cypress Landing Owners Association (the Association) was incorporated under the laws of California on September 8, 2005 as a nonprofit mutual benefit corporation. Its primary purpose is to provide for the maintenance, preservation and architectural control of the buildings, grounds and common areas for the 57 units of the Sunnyvale, California condominium conversion association. It does not contemplate gain or loss to itself or its members.

The Association derives its authority and responsibilities from its Bylaws and Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations. Major budget and policy decisions are referred to the general Association membership.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners, who are entitled to one vote for each unit owned. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

Note B - Date of Management Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 5, 2020, the date that the financial statements were available to be issued.

Note C – Summary of Significant Accounting Policies

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.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by classification of revenue, expenses, and fund balances. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note C – Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Association considers only highly liquid debt instruments, such as a certificate of deposit, purchased with a maturity of three months or less to be a cash equivalent.

Restricted Cash

Monies in designated checking accounts and time certificate of deposits have been restricted for the replacement fund. All other cash funds are deemed available for current operations.

Interest income

Interest income on Association cash accounts are credited to the fund generating the interest earnings.

Concentration of Credit Risk

The Association maintains a majority of its cash in bank deposit accounts that, at times, may exceed federally insured limits of \$250,000 per bank. The Association has not experienced any losses in such accounts. Management believes the association is not exposed to any significant credit risk related to cash. The Association maintains its financial instruments with what management believes to be high quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash and cash equivalent in excess of federal deposit insurance coverage (FDIC) limits as of June 30, 2020 totaled approximately \$128,509.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.

Common Area

The Association has not capitalized the common area property received at its inception from the developer. The Association common area property title is held by all of the owners in common. The common area includes, without limitation, land, buildings, paving, lighting, street drains, sewer mains and water lines. This policy of non-capitalization is widely followed in the homeowner association industry since all beneficial rights of ownership belong to the unit owners and not to the Association. Replacements to the real property are not capitalized for the same reasons described above. They are instead charged to the replacement fund in the period incurred.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and for any major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. Operating fund assessments are recognized in the same period as they are assessed which is usually monthly and replacement fund assessments are recognized when the obligation for which they were assessed is fulfilled, that is, when major repairs and replacements included in an association's reserve study occur which is usually at a point in time.

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Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note C – Summary of Significant Accounting Policies, continued

Member Assessments, continued

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. Delinquent assessments may be secured by liens on the owner's property for which the assessments are made, and the Association has the power to foreclose the property of any owners failing to pay assessments. Consequently, as long as the Association has liens fixed, has knowledge of the owners' whereabouts, and has no knowledge of a bankruptcy, the Board feels that they will eventually collect back the assessments owed.

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. As contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$310,065 and \$325,101, respectively.

Note D – 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, Revenue Recognition*, and requires the recognition of revenue when promised goods and 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 July 1, 2019, using the modified retrospective method of transition, which requires the cumulative effect of 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 revenue and contract liabilities (Assessments received in advance-replacement fund), as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of July 1, 2019:

Fund balances, as previously reported, at July 1, 2019	\$	309,427
Adjustment		<u>(310,065)</u>
Fund balances, as adjusted, at July 1, 2019	\$	<u>(638)</u>

The effect of the adoption is a decrease in 2019-2020 replacement fund assessments by \$15,036 and recording of a contract liability at June 30, 2020 of \$325,101. The Association has no customer contract modifications that had an effect on the Association's transaction to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2020 financial statements. Following are the line items from our balance sheet as of June 30, 2020, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note D – FASB ASC 606 New Accounting Guidance Implementation, continued

	Amounts that would have been reported	Effects of applying new guidance	As reported
<u>Liabilities:</u>			
Contract liabilities (Assessments received in advance-replacement fund)	\$ -	\$ 325,101	\$ 325,101
Total Liabilities	33,916	359,017	359,017
<u>Fund balance:</u>			
Ending fund balances	\$ 353,755	\$ (325,101)	\$ 28,654

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended June 30, 2020, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts that would have been reported	Effects of applying new guidance	As reported
<u>Revenue:</u>			
Regular assessments	\$ 273,369	\$ (15,036)	\$ 258,333
Excess (Deficiency) of revenues over expenses	44,328	(15,036)	29,292
<u>Cash Flows:</u>			
Excess (Deficiency) of revenues over expenses	\$ 44,328	\$ (15,036)	\$ 29,292
Increase in contract liabilities (Assessments received in advance-replacement fund)	-	15,036	15,036

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note E – Income Taxes

Under Section 528 of the Internal Revenue Code and California Revenue and Taxation Code Section 23701t, qualified homeowner associations may elect to be taxed as either a homeowner association or a regular corporation. Electing associations are generally taxed only on income from investments and business with non-members. For federal taxes, the election may be made or waived each year. For California the election is generally permanent.

Under this election, non-exempt income (such as interest) is subject to tax after deducting directly related expenses and a special deduction of \$100. Taxable income is then taxed at the federal rate of 30%, and at the California rate of 8.84%.

If this election is not made, all net revenues of the Association (including owner assessments) are subject to tax. Special assessments for capital improvements and contributions to replacement funds may generally be excluded from taxable income. Excess owner assessments may also be excluded from tax if they are allocated to next year's budget by a vote of the membership. Under this status, the federal tax rate on the first \$50,000 of income is 21%. The California rate is 8.84%.

Regardless of whether the election is made or not, the Association is always taxed on its non-membership net income, such as interest, and membership expenses may not offset such income. The tax returns are subject to examination by the Internal Revenue Service and/or the California Franchise Tax Board for three and four years respectively after they were filed.

The election was made to treat the Association as a homeowner association for federal taxes for the tax years ended June 30, 2020 and 2019. The Association has obtained exempt status for California law and thus is not subject to the minimum tax. The Association pays taxes and fees from the operating fund. There are no deferred taxes. Income tax expense is as follows:

	2020	2019
Federal income tax	\$ -	\$ -
California income tax	10	10
Total income tax expense	<u>\$ 10</u>	<u>\$ 10</u>

Note F – Regular and Special Assessments

For year ending in 2020 the regular assessments were payable to the Association an average monthly installments of between \$445.65 and \$356.33 per unit depending on the size of the unit. These assessments included an average allocation of \$54.07 per unit for the replacement fund.

For year ending in 2019 the regular assessments were payable to the Association an average monthly installments of between \$412.84 and \$316.89 per unit depending on the size of the unit. These assessments included an allocation of \$39.74 for the replacement fund.

The annual budget and owners assessments are determined by the Board of Directors and presented to the homeowners in accordance with California Civil Code requirements. The Assessments are divided between the operating funds to meet normal operating costs and contributions to the replacement funding program. There was no special assessments in 2020 and 2019 and none are currently anticipated.

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Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2020 and 2019

Note G – Future Major Repairs and Replacements

Major repairs and maintenance of the common areas are funded from the replacement fund. The Association currently funds anticipated future repair and replacement costs through the accumulation of homeowner capital assessments and earnings on such funds.

Replacement funds are amounts to be spent on future repair and replacement of selected Association common areas. A long-term formal funding program is one that is based on a study that identifies specific common area components such as lights, streets, landscaping, etc., the expected replacement costs and expected remaining service lives of each, and provides plans for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

A study to determine the adequacy of the current funding program for the replacement of Association common areas was prepared by Association Reserves San Francisco, LLC as of July 1, 2020 with on-site visual inspection for 2020. It is based on observation, consultation with the developer and the firms' experience to estimate the current cost to replace the components. The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note H – Subsequent Events

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China spreading in the United States, along with various other countries globally. On March 11, 2020, the World Health Organization has characterized COVID-19 as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state and local governments have taken action in response to the pandemic, which have ranged by jurisdiction, but are generally expected to result in a variety of negative economic consequences, the scope of which is currently not known or quantifiable. The duration and intensity of the impact of the coronavirus and resulting impact to the Association is unknown.

SUPPLEMENTARY INFORMATION

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Cypress Landing Owners Association

Supplementary Information on Future Major Repairs and Replacements (compiled)

June 30, 2020

The Board of Directors of Cypress Landing Owners Association had a formal replacement study completed by Association Reserves San Francisco LLC, for the fiscal year beginning July 1, 2020. The estimates used for the remaining useful lives and replacement costs of the components of common property are based on observation and the firms' experience to estimate the current cost to replace the components. The funding requirements included an annual inflation factor of 3.00% with interest earnings at 1.00% and taxes on the interest at 30%.

A cash flow funding method is used where contributions to the replacement fund are designed to offset the variable annual expenditures from the replacement fund. The study is available from the management and officers of the Association. A summary was sent to all owners as part of the annual budget information. The study indicated that at July 1, 2020, the fully funded balance should be \$858,515, resulting in a percentage funding of 33.2%.

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

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Concrete and asphalt, CA	0-15	\$ 169,210
Lights and mailboxes, CA	5-19	57,800
Fences and monument, CA	0-27	133,385
Irrigation and landscape, CA	0-5	29,900
Balcony and railings, B	0-15	150,880
Water heaters and pumps, B	0-14	101,200
Roof and stucco, B	0-10	507,450
Signage, elevator and alarm, B	0-4	124,000
Pest control, B	12	15,450
HVAC and heat pump, C	1	10,905
Carpet and flooring, C	3-15	5,085
Furniture and kitchen, C	3-6	10,405
Furniture and BBQ, SA	1	3,440
Fencing and surfacing, SA	0-8	19,830
Filter and pumps, SA	0	12,450
TOTALS		\$ 1,351,390

Cypress Landing Owners Association

(A California Corporation)

Financial Statements and Supplementary Information

Year Ended June 30, 2019
(With Comparative Totals for June 30, 2018)

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Independent Accountant's Review Report

Board of Directors and members
Cypress Landing Owners Association
Sunnyvale, California

We have reviewed the accompanying financial statements of Cypress Landing Owners Association, which comprise the balance sheet as of June 30, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 engagement 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.

Accountant's Conclusion on the Financial Statements

Based on our review, 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.

Summarized Comparative Information

We previously reviewed Cypress Landing Owners Association 2018 financial statements and in our conclusion dated September 12, 2018 stated that based on our review, we were not aware of any material modifications that should be made to the 2018 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended June 30, 2018, for it to be consistent with the reviewed financial statements from which it has been derived.

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 on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.

Young, Craig & Co. LLP

August 27, 2019

Cypress Landing Owners Association

Balance Sheet

June 30, 2019

(With Comparative Total for June 30, 2018)

	Operating Fund	Replacement Fund	Total	2018 Total Funds
Assets:				
Cash and cash equivalents	\$ 32,042	\$ 305,052	\$ 337,094	\$ 349,252
Assessments receivable				
No allowance for doubtful accounts	3,811	-	3,811	3,368
Prepaid insurance expense	1,445	-	1,445	1,093
Prepaid taxes (Note E)	-	481	481	481
Total assets	\$ 37,298	\$ 305,533	\$ 342,831	\$ 354,194
 Liabilities:				
Accounts payable	\$ 15,341	\$ -	\$ 15,341	\$ 13,756
Prepaid assessments	14,073	-	14,073	9,792
Income taxes (Note E)	-	-	-	10
Owner electricity deposits	3,990	-	3,990	3,990
Interfund payable (receivable)	4,532	(4,532)	-	-
Total liabilities	37,936	(4,532)	33,404	27,548
 Fund balances:				
Operating Fund deficit	(638)	-	(638)	(5,033)
Replacement Fund	-	310,065	310,065	331,679
Total fund balances (deficit)	(638)	310,065	309,427	326,646
Total liabilities and fund balance	\$ 37,298	\$ 305,533	\$ 342,831	\$ 354,194

Cypress Landing Owners Association
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Operating Fund	Replacement Fund	Total	2018 Total Funds
Revenue:				
Assessments (Note D)	\$ 221,324	\$ 27,192	\$ 248,516	\$ 248,516
Interest earned	-	161	161	937
Electricity submetering income	20,710	-	20,710	25,633
Other homeowner income	846	-	846	1,810
Total revenue	242,880	27,353	270,233	276,896
Expenses:				
Landscape maintenance	16,842	-	16,842	26,843
Custodial service	4,711	-	4,711	5,651
Fire safety	12,449	-	12,449	11,697
Repair and maintenance	15,857	48,967	64,824	83,655
Spa	3,319	-	3,319	3,745
Gas and electric service	66,448	-	66,448	63,907
Water, sewer and garbage service	77,537	-	77,537	72,443
Submeter reading fee	2,629	-	2,629	2,565
Insurance	9,260	-	9,260	15,251
Financial management	6,537	-	6,537	6,521
Property management	15,364	-	15,364	13,040
Legal and accounting	2,195	-	2,195	2,150
Replacement fund study	2,295	-	2,295	870
Office and administration	3,032	-	3,032	1,630
Taxes (Note E)	10	-	10	111
Total expenses	238,485	48,967	287,452	310,079
(Deficiency) excess revenues over expenses	4,395	(21,614)	(17,219)	(33,183)
Fund balance (deficit), beginning of year	(5,033)	331,679	326,646	359,829
Fund balance (deficit), end of year	\$ (638)	\$ 310,065	\$ 309,427	\$ 326,646

Cypress Landing Owners Association
Statement of Cash Flow
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	Operating Fund	Replacement Fund	Total	2018 Total Funds
Cash Flows from Operating Activities:				
(Deficiency) excess of revenues over expenses	\$ 4,395	\$ (21,614)	\$ (17,219)	\$ (33,183)
Adjustments to reconcile (deficiency) excess of revenues over expenses to net cash provided by operating activities:				
(Increase) decrease in:				
Assessments receivable	(443)	-	(443)	2,248
Prepaid insurance	(352)	-	(352)	(19)
Prepaid taxes	-	-	-	101
Increase (decrease) in:				
Accounts payable	1,585	-	1,585	(13,892)
Prepaid assessments	4,281	-	4,281	(1,266)
Taxes payable	(10)	-	(10)	-
Interfund payable (receivable)	5,277	(5,277)		
Net cash provided (used) by operating activities	14,733	(26,891)	(12,158)	(46,011)
Cash Flows from Investing Activities:				
(Increase) decrease in:				
Certificates of deposit (redemption)		-	-	120,000
Net increase (decrease) in cash and cash equivalents	14,733	(26,891)	(12,158)	73,989
Cash and cash equivalents as of:				
Beginning of year	17,309	331,943	349,252	275,263
End of year	\$ 32,042	\$ 305,052	\$ 337,094	\$ 349,252
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Income taxes	\$ 10	\$ -	\$ 10	\$ 10

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2019 and 2018

Note A – Significant Accounting Policies

Organization

Cypress Landing Owners Association (the Association) was incorporated under the laws of California on September 8, 2005 as a nonprofit mutual benefit corporation. Its primary purpose is to provide for the maintenance, preservation and architectural control of the buildings, grounds and common areas for the 57 units of the Sunnyvale, California condominium conversion association. It does not contemplate gain or loss to itself or its members.

The Association derives its authority and responsibilities from its Bylaws and Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations. Major budget and policy decisions are referred to the general Association membership.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners, who are entitled to one vote for each unit owned. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

Funds

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Under this method, funds are separated into two categories, operating fund and replacement fund. The operating fund is used to account for financial resources available for the general operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

Restricted Cash

Monies in designated checking accounts and time certificate of deposits have been restricted for the replacement fund. All other cash funds are deemed available for current operations.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the Association considers only highly liquid debt instruments, such as a certificate of deposit, purchased with a maturity of three months or less to be a cash equivalent.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by classification of revenue, expenses, and fund balances. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Interest Earnings

Interest earnings on Association cash accounts are credited to the fund generating the interest earnings.

Concentration of Credit Risk

The Association maintains a majority of its cash in bank deposit and money market accounts that, at times, may exceed federally insured limits of \$250,000 per institution. The Association has not experienced any losses in such accounts. Management believes the association is not exposed to any significant credit risk related to cash.

Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2019 and 2018

Note A – Significant Accounting Policies, continued

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivables at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. Delinquent assessments may be secured by liens on the owner's Sunnyvale property for which the assessments are made, and the Association has the power to foreclose the property of any owners failing to pay assessments. Consequently, as long as the Association has liens fixed, has knowledge of the owners' whereabouts, and has no knowledge of a bankruptcy, the Board feels that they will eventually collect the back assessments owed.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.

Date of Management Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 27, 2019 the date that the financial statements were available to be issued.

Note B – Property

The Association has not capitalized the common area property received at its inception from the developer. The Association does not hold title; rather each homeowner owns their portion of the undivided common areas which include land, buildings, paving, landscaping, lighting, retaining walls, street drains, and main sewer and water lines. This policy of non-capitalization is widely followed in the homeowner association industry since all beneficial rights of ownership belong to the unit owners and not to the Association. Replacements to the real property are not capitalized for the same reasons described above. They are instead charged to the replacement fund in the period incurred.

Note C – Future Major Repairs and Replacements

Major repairs and maintenance of the common areas are funded from the replacement fund. The Association currently funds anticipated future repair and replacement costs through the accumulation of homeowner capital assessments and earnings on such funds.

Replacement funds are amounts to be spent on future repair and replacement of selected Association common areas. A long-term formal funding program is one that is based on a study that identifies specific common area components such as lights, streets, landscaping, etc., the expected replacement costs and expected remaining service lives of each, and provides plans for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

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Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2019 and 2018

Note C – Future Major Repairs and Replacements, continued

A study to determine the adequacy of the current funding program for the replacement of Association common areas was prepared by Association Reserves San Francisco, LLC on May 29, 2018 and is based on observation and the firms' experience to estimate the current cost to replace the components. The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note D – Regular and Special Assessments

For year ending in 2019 the regular assessments were payable to the Association an average monthly installments of between \$412.84 and \$316.89 per unit depending on the size of the unit. These assessments included an average allocation of \$39.74 per unit for the replacement fund.

For year ending in 2018 the regular assessments were payable to the Association an average monthly installments of between \$409.39 and \$319.94 per unit depending on the size of the unit. These assessments included an allocation of \$56.94 for the replacement fund.

The annual budget and owners assessments are determined by the Board of Directors and presented to the homeowners in accordance with California Civil Code requirements. The Assessments are divided between the operating funds to meet normal operating costs and contributions to the replacement funding program.

There was no special operating assessment in the year ending 2019.

Note E – Income Taxes

Under Section 528 of the Internal Revenue Code and California Revenue and Taxation Code Section 23701t, qualified homeowner associations may elect to be taxed as either a homeowner association or a regular corporation. Electing associations are generally taxed only on income from investments and business with non-members. For federal taxes, the election may be made or waived each year. For California the election is generally permanent.

Under this election, non-exempt income (such as interest) is subject to tax after deducting directly related expenses and a special deduction of \$100. Taxable income is then taxed at the federal rate of 30%, and at the California rate of 8.84%.

If this election is not made, all net revenues of the Association (including owner assessments) are subject to tax. Special assessments for capital improvements and contributions to replacement funds may generally be excluded from taxable income. Excess owner assessments may also be excluded from tax if they are allocated to next year's budget by a vote of the membership. Under this status, the federal tax rate on the first \$50,000 of income is 21%. The California rate is 8.84%.

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Cypress Landing Owners Association

Notes to Financial Statements

June 30, 2019 and 2018

Note E – Income Taxes, continued

Regardless whether the election is made or not, the Association is always taxed on its non-membership net income, such as interest, and membership expenses may not offset such income.

The election was made to treat the Association as a homeowner association for federal taxes for the tax years ended June 30, 2019 and 2018. The Association has obtained exempt status for California law and thus is not subject to the minimum tax. The Association pays taxes from the replacement fund. Fees are paid out of the operating fund. There are no deferred taxes. Income tax expense is as follows:

	2019	2018
Federal income tax	\$ -	\$ 76
California income tax	10	35
Total income tax expense	<u>\$ 10</u>	<u>\$ 111</u>

Note F – Interfund Transactions

The Association's budget includes an annual assessment for future major repairs and replacements, which is reported as revenue of the replacement fund. However, due to an unexpected increase in operating costs, the Association's board of directors did not transfer two months of replacement assessments, \$4,532, to the replacement fund. The Association's reflects an increase of \$4,532 as a payable from the operating fund and as a receivable to the replacement fund.

SUPPLEMENTARY INFORMATION

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Cypress Landing Owners Association

Supplementary Information on Future Major Repairs and Replacements (compiled)

June 30, 2019

The Board of Directors of Cypress Landing Owners Association had a formal replacement study completed by Association Reserves San Francisco LLC, May, 2018 and updated for the 2019 budget. The estimates used for the remaining useful lives and replacement costs of the components of common property are based on observation and the firms' experience to estimate the current cost to replace the components. The funding requirements included an annual inflation factor of 3.00% with interest earnings at 1.00% and taxes on the interest at 30%. The following table is based on that information and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life	Estimated 07/01/2019 Replacement Cost
Concrete and asphalt, CA	1-16	\$ 164,240
Lights and mailboxes, CA	6-15	56,125
Fences and monument, CA	18	118,030
Irrigation and landscape, CA	1-6	21,050
Balcony and railings, B	16	223,130
Water heaters and pumps, B	13	142,435
Roof and stucco, B	12	491,350
Signage, elevator and alarm, B	6	116,205
Pest control, B	13	15,000
HVAC and heat pump, C	14	10,585
Carpet and flooring, C	14-16	4,830
Furniture and kitchen, C	1-6	10,105
Furniture and BBQ, SA	0	3,340
Fencing and surfacing, SA	9	19,260
Filter and pumps, SA	0	12,085
		\$ 1,407,770
Fund balance June 30, 2019		\$ 310,065

The study is available from the management and officers of the Association. A summary was sent to all owners as part of the annual budget information. The study indicated that at July 1, 2019, the fully funded balance should be \$809,433, resulting in a percentage funding of 37.9%.