

**The Community Association of Bernardo Heights  
Financial Statements  
For the Year Ended December 31, 2022**



**NEWMAN**  
Certified Public Accountant, PC

**The Community Association of Bernardo Heights  
Financial Statements  
For the Year Ended December 31, 2022**

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**TABLE OF CONTENTS**

Independent Accountant's Report.....	3-4
Balance Sheet.....	5
Statement of Revenues, Expenses and Changes in Fund Balances.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8-11
Supplementary Information.....	12



## **Independent Accountant's Review Report**

To the Board of Directors of The Community Association of Bernardo Heights

We have reviewed the accompanying financial statements of The Community Association of Bernardo Heights, which comprise the balance sheet as of December 31, 2022, 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 opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and the 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 the 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.

We are required to be independent of The Community Association of Bernardo Heights, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

### **Accountant's Conclusion**

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.

**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, who 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. The information is the responsibility of management. We have compiled the required supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and do not express an opinion, a conclusion, nor provide any assurance on it.

*Newman Certified Public Accountant, PC.*

**Newman Certified Public Accountant, PC**

Carlsbad, California

April 27, 2023

**The Community Association of Bernardo Heights**  
**Balance Sheet**  
**December 31, 2022**

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 559,101	\$ 912,292	\$ 1,471,393
Investments		550,000	550,000
Assessments receivable	19,278		19,278
Interest receivable		6,504	6,504
Prepaid income taxes	17,028		17,028
<b>Total assets</b>	<b>\$ 595,407</b>	<b>\$ 1,468,796</b>	<b>\$ 2,064,203</b>
<b>Liabilities</b>			
Accounts payable	\$ 152,840	\$ -	\$ 152,840
Prepaid assessments	54,867		54,867
Contract liabilities (Assessments received in advance - replacement fund)		1,468,796	1,468,796
<b>Total liabilities</b>	<b>207,707</b>	<b>1,468,796</b>	<b>1,676,503</b>
<b>Fund balances</b>	<b>387,700</b>	<b>-</b>	<b>387,700</b>
<b>Total liabilities and fund balances</b>	<b>\$ 595,407</b>	<b>\$ 1,468,796</b>	<b>\$ 2,064,203</b>

The accompanying notes are an integral part of the financial statements  
(See Independent Accountant's Review Report)

**The Community Association of Bernardo Heights**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2022**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Owners' assessments	\$ 1,875,389	\$ 27,116	\$ 1,902,505
Cell tower income	46,100		46,100
Lease income	90,821		90,821
Clubhouse rental	14,455		14,455
Bad debt recovery	2,917		2,917
Interest		8,471	8,471
Other member income	47,638		47,638
<b>Total revenues</b>	<u>2,077,320</u>	<u>35,587</u>	<u>2,112,907</u>
<b>Expenses</b>			
Utilities			
Electricity and gas	85,413		85,413
Water	411,712		411,712
Trash removal	5,059		5,059
Telephone and cable	3,297		3,297
	<u>505,481</u>	<u>-</u>	<u>505,481</u>
Maintenance			
Landscape and irrigation	551,797	11,802	563,599
Tree trimming	90,044		90,044
Common area repairs and maintenance	51,688		51,688
Pool and spa	44,932	20,310	65,242
Janitorial	45,016		45,016
Patrol and security	11,662		11,662
Park maintenance		3,475	3,475
	<u>795,139</u>	<u>35,587</u>	<u>830,726</u>
Administrative			
Insurance	41,668		41,668
Management	31,140		31,140
Administrative expense	36,394		36,394
Payroll and related expenses	341,957		341,957
Legal and professional	12,542		12,542
Licenses, permits and fees	1,574		1,574
Income tax expense	55,972		55,972
	<u>521,247</u>	<u>-</u>	<u>521,247</u>
<b>Total expenses</b>	<u>1,821,867</u>	<u>35,587</u>	<u>1,857,454</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	255,453	-	255,453
<b>Beginning fund balances</b>	582,247	-	582,247
Transfer to/from contract liabilities	(450,000)		(450,000)
<b>Ending fund balances</b>	<u>\$ 387,700</u>	<u>\$ -</u>	<u>\$ 387,700</u>

The accompanying notes are an integral part of the financial statements  
(See Independent Accountant's Review Report)

**The Community Association of Bernardo Heights**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2022**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Excess (deficit) of revenues over (under) expenses</b>	\$ 255,453	\$ -	\$ 255,453
Adjustments to reconcile excess (deficit) of revenues over (under) expenses to net cash provided (used) by operating activities			
Decrease (Increase) in operating assets:			
Accounts receivable	33,634		33,634
Allowance for doubtful accounts	(2,917)		(2,917)
Interest receivable		(5,086)	(5,086)
Prepaid income tax	(17,028)		(17,028)
Increase (decrease) in operating liabilities:			
Accounts payable	(21,906)		(21,906)
Prepaid assessments	(33,292)		(33,292)
Income taxes payable	(78,482)		(78,482)
Contract liabilities (Assessments received in advance - replacement fund)		621,375	621,375
Total adjustments	<u>(119,991)</u>	<u>616,289</u>	<u>496,298</u>
Net cash provided (used) by operating activities	<u>135,462</u>	<u>616,289</u>	<u>751,751</u>
Cash provided (used) by investing activities			
Change in investments		(150,000)	(150,000)
Net cash provided (used) by investing activities	<u>-</u>	<u>(150,000)</u>	<u>(150,000)</u>
Cash provided (used) by financing activities			
Transfer to contract liabilities	(450,000)		(450,000)
Net cash provided (used) by financing activities	<u>(450,000)</u>	<u>-</u>	<u>(450,000)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(314,538)	466,289	151,751
Beginning cash and cash equivalents	873,639	446,003	1,319,642
<b>Ending cash and cash equivalents</b>	<u>\$ 559,101</u>	<u>\$ 912,292</u>	<u>\$ 1,471,393</u>
<b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid			\$ 73,000
Interest paid			\$ -

**The Community Association of Bernardo Heights**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2022**

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**1. Organization**

The Community Association of Bernardo Heights (the "Association") was incorporated on February 13, 1981 as a nonprofit mutual benefit corporation under the laws of California for the purposes of maintaining and preserving common property. The Association consists of 3,488 residential homes and is located in Rancho Bernardo, California.

**2. Date of Management's Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 27, 2023, the date that the financial statements were available to be issued.

**3. Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Board of Directors 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 revenue and expenses during the reporting period. Actual results could differ significantly from those estimates.

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 - The fund is used to account for financial resources available for the general operations of the Association.

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

Members Assessments

Association members are subject to monthly 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.

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 properties of owners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$52,912 and \$19,278, respectively. After the Board of Directors has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances.

Property and Equipment

The Association has not capitalized real and personal common area property contributed by the developer. Replacements and improvements to real property are also not capitalized; rather, they are charged to the respective fund in the period the cost is incurred.



**The Community Association of Bernardo Heights**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2022**

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Contract Liabilities (Assessments received in advance - replacement fund)

The Association recognizes replacement fund (reserves) revenue from members as related performance obligations are satisfied. A contract liability (assessments received in advance - replacement fund) is recorded when the Association has the right to receive payment in advance of 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 \$847,421 and \$1,468,796, respectively.

Income Tax

The Association's policy is to record interest expense or penalties related to income tax in operating expenses.

Interest Income

Interest income is recognized when earned and allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At December 31, 2022, \$949,655 was exposed to risk.

**4. Income Taxes**

Common Interest Realty Associations are generally taxed either as a qualifying Internal Revenue Code (IRC) Section 528 homeowners' association or as a regular corporation subject to the special provisions of IRC Section 277 for membership organizations. For the current year, the Association has met IRC Section 528 eligibility requirements and has chosen to file Form 1120-H for its federal income tax return. The income tax filing determination is assessed for each tax year and only pertains to the tax year being evaluated.

IRC Section 528 requires that the Association separates all of its income and expense activity between three categories: exempt function, nonexempt function and capital. Taxable income includes net nonexempt function income, such as interest and other nonmember sourced income. In the determination of net taxable income, certain expenses were allocated to offset a portion of the Association's taxable income. The Form 1120-H tax rate is 30%.

The Association is also required to file California's Form 100 income tax return subject to California Revenue & Taxation Code sections 24405 and 24437 for its state income tax return. The Form 100 tax rate is 8.84%.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of the year end, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively. There are currently no audits in progress for any tax period.

**The Community Association of Bernardo Heights**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2022**

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**5. Future Major Repairs and Replacements**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for operating fund expenses.

The Board of Directors conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on this study.

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, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

**6. FASB ASC 606 Revenue Recognition**

The Financial Accounting Standards Board (FASB) issued ASC 606 guidance, Revenue from Contracts with Customers, effective January 1, 2019, which superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRA), Revenue Recognition. The Association has presented the attached financial statements in accordance with FASB ASC 606. Assessments attributed to the Operating Fund are recognized in the period earned. Assessments allocated to the Replacement Fund are recognized as revenue only when there are replacement fund expenditures, and to the extent the replacement fund expenditures exceed replacement fund interest income.

The cumulative balance of Replacement Fund assessments that have not been recognized as income are accumulated as deferred replacement fund assessments and presented as Contract Liabilities (Assessments received in advance - Replacement fund) on the Balance Sheet. Deferred replacement fund assessments are increased by unrecognized replacement fund assessments and decreased as replacement fund assessments are recognized as revenue in the Statement of Revenue and Expenses and Changes in Fund Balances.

Contract liabilities (Assessments received - in advance - replacement fund) as of January 1, 2022	\$847,421
Assessments budgeted for Replacement Fund	\$198,491
Recognized Replacement Fund assessments	\$(27,116)
Adjustment and transfer to/from contract liabilities	\$450,000
Contract liabilities (Assessments received - in advance - replacement fund) as of December 31, 2022	<u>\$1,468,796</u>

**The Community Association of Bernardo Heights**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2022**

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**7. COVID-19**

The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. In the United States, the federal and state governments have implemented enhanced screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus began causing business disruptions domestically beginning in 2019 that are anticipated to continue for the foreseeable future. The extent of the impact of the COVID-19 pandemic on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of the COVID-19 pandemic on overall demand for the Association's services and the ability of owners to pay assessments, all of which are highly uncertain and cannot be predicted.

**8. Silvergate Rancho Bernardo Project**

In 2016, the Association entered into an annexation agreement with AmeriCare Health & Retirement, Inc (Americare). Americare purchased real property, which is adjacent to residential housing developments which are part of Bernardo Heights, for the purpose of developing a rental, assisted care facility, tentatively known as Silvergate Rancho Bernardo. During 2022, Americare and Silvergate Rancho Bernardo paid monthly assessments of \$5,583.

**9. San Diego Gas and Electric Lease Agreement**

In September 2020, the Association entered into a licensing agreement with SDG&E to lease empty property for storage. In consideration for the use of property, SDG&E agrees to pay a monthly rate of \$17,250 until the termination of the agreement. During the year ended December 31, 2022, the association recognized lease income totaling \$90,821. The agreement was terminated in May 2022.

**10. Cell Tower Income**

On August 21, 2015, the Association entered into a long-term lease agreement with T-Mobile for installation of telecommunication equipment on Association property. The initial lease term was for five years. As of December 31, 2022, the Association recognized cell tower income totaling \$46,100.

**11. Legal**

The Association has engaged legal counsel to review various matters and advise the Board of Directors. As of the date of this report, outcomes have not been determined and any gain or loss contingencies are not estimable, thus amounts have not been accrued in the accompanying financial statements.

**The Community Association of Bernardo Heights**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2022**  
**(Unaudited)**

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated November 1, 2022 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair and replacement.

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

Study Component	Estimated remaining useful lives	Estimated current replacement costs
Community center, clubhouse	0-20	\$ 537,957
Community center, courts	1-11	69,678
Community center, pools, spa, and wader	0-22	510,074
Community center, site	0-47	1,007,725
Lucido park	0-34	252,933
Site, irrigation	0-16	412,500
Site, landscape	0-5	87,000
Site, signage	5-45	321,800
		<u>\$ 3,199,667</u>
Interest rate		<u>1.57%</u>
Inflation rate		<u>3.00%</u>

See the Balance Sheet for replacement fund cash, cash equivalents and investments balances at December 31, 2022.