

**SERENA AT GALE RANCH OWNERS ASSOCIATION**

INDEPENDENT ACCOUNTANT'S REVIEW REPORT AND  
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2020

# Serena at Gale Ranch Owners Association

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Year Ended December 31, 2020

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members of  
**Serena at Gale Ranch Owners Association**  
San Ramon, California

We have reviewed the accompanying financial statements of **Serena at Gale Ranch Owners Association** (the Association) which comprise the balance sheet as of December 31, 2020 and the related statement of revenues, expenses and changes in fund balances, and the statement of 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 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.

### 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

The Association has not conducted an independent component study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Therefore management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

*Lara Accountancy Group, Inc.*

Redwood City, CA  
March 16, 2021

# Serena at Gale Ranch Owners Association

## Balance Sheet as of December 31, 2020

	<u>Note</u>	<u>2020</u>		
		<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>Assets</b>				
Cash and cash equivalents	2.3	\$ 170,063	\$ 2,115	\$ 172,178
Member receivables	2.5	<u>2,999</u>	<u>-</u>	<u>2,999</u>
<b>Total Assets</b>		<u>\$ 173,062</u>	<u>\$ 2,115</u>	<u>\$ 175,177</u>
<b>Liabilities</b>				
Deposits		\$ 58,750	\$ -	\$ 58,750
Assessments received in advance		9,521	-	9,521
Contract liabilities (deferred revenue)	2.11	<u>-</u>	<u>2,115</u>	<u>2,115</u>
<b>Total Liabilities</b>		<u>68,271</u>	<u>2,115</u>	<u>70,386</u>
<b>Fund Balance</b>		<u>104,791</u>	<u>-</u>	<u>104,791</u>
<b>Total Liabilities and Fund Balance</b>		<u>\$ 173,062</u>	<u>\$ 2,115</u>	<u>\$ 175,177</u>

See independent accountant's review report and accompanying notes.

## Serena at Gale Ranch Owners Association

Statement of Revenues, Expenses  
and Changes in Fund Balances  
for the Year Ended December 31, 2020

		2020		
	Note	Operations Fund	Replacement Fund	Total Funds
<b>Revenues</b>				
Member assessments	2.7	\$ 77,259	\$ -	\$ 77,259
Late charges and other income		850	-	850
Interest income	2.8	-	1	1
<b>Total Revenues</b>		<b>78,109</b>	<b>1</b>	<b>78,110</b>
<b>Expenses</b>				
<b><u>Administration</u></b>				
Management		16,072	-	16,072
Office, printing and postage		3,423	-	3,423
Insurance		3,164	-	3,164
Legal, accounting and consulting		1,185	-	1,185
Provision for contract liabilities	2.11	-	1	1
<b>Total administration</b>		<b>23,844</b>	<b>1</b>	<b>23,845</b>
<b>Total Expenses</b>		<b>23,844</b>	<b>1</b>	<b>23,845</b>
<b>Excess of Revenues Over Expenses</b>		54,265	-	54,265
<b>Fund Balance, Beginning of Year</b>		50,526	-	50,526
<b>Fund Balance, End of Year</b>		<b>\$ 104,791</b>	<b>\$ -</b>	<b>\$ 104,791</b>

See independent accountant's review report and accompanying notes.

# Serena at Gale Ranch Owners Association

## Statement of Cash Flows for the Year Ended December 31, 2020

	2020		
	Operations Fund	Replacement Fund	Total Funds
<b><u>Operating Activities</u></b>			
Excess of Revenues Over Expenses	\$ 54,265	\$ -	\$ 54,265
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Decrease (Increase) in Assets:			
Member receivables	(1,155)	-	(1,155)
Increase (Decrease) in Liabilities			
Assessments received in advance	1,656	-	1,656
Deposits	7,250	-	7,250
Contract liabilities (deferred revenue)	-	1,315	1,315
Total Adjustments	<u>7,751</u>	<u>1,315</u>	<u>9,066</u>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>62,016</u>	<u>1,315</u>	<u>63,331</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>62,016</u>	<u>1,315</u>	<u>63,331</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>108,047</u>	<u>800</u>	<u>108,847</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 170,063</u>	<u>\$ 2,115</u>	<u>\$ 172,178</u>

See independent accountant's review report and accompanying notes.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

## 1. Nature of Organization

**Serena at Gale Ranch Owners Association** (the Association) is a common interest development located in San Ramon, California which consists of 105 (142 at build-out) residential dwellings and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation on March 29, 2018 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

## 2. Summary of Significant Accounting Policies

**2.1 Method of Accounting.** 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.

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

**Operations Fund** - This fund is used to account for the financial resources available for the general day-to-day operations of the Association.

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

**2.3 Cash and Cash Equivalents.** For purposes of the balance sheet and the statement of cash flows, the Association considers cash on hand, demand deposits with financial institutions, money market accounts and all short-term investments with original maturities of three months or less to be included in cash and cash equivalents.

See independent accountant's review report.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

**2.4 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

**2.5 Member Receivables** at the balance sheet date represent aggregate amounts due from unit owners which may include regular assessments, late fees, fines, reimbursement assessments and other charges. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control.

It is the opinion of the Board of Directors that the Association will ultimately prevail against homeowners with delinquent assessments and, accordingly, no allowance for delinquent accounts is deemed necessary.

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

**2.7 Member Assessments.** Association members are subject to annual assessments, payable in equal monthly installments, 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 is 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. In addition to regular annual assessments, special and/or emergency assessments may be imposed by the Association's Board of Directors under certain circumstances without member approval. Any excess assessments at year end are retained by the Association for use in the succeeding year.

**2.8 Interest Earned** on operating and replacement funds, net of related income taxes, is retained in said respective funds.

**2.9 Income Taxes.** The Association elects annually to be taxed as either a regular corporation under Internal Revenue Code (IRC) § 277 or as a homeowners association under IRC § 528 in its tax filing with the Internal Revenue Service (IRS). Form 1120 is used when filing as a regular corporation and Form 1120-H is used when filing as a homeowners association.

See independent accountant's review report.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

## Income taxes (continued)

For the year ended December 31, 2020, the Association elected to file Form 1120-H and be taxed as a homeowners association. By doing so, the Association is taxed at a flat 30% rate on its nonexempt function income (generally investment interest income), less directly related expenses and a specific deduction of \$100.

The Association is taxed by the California Franchise Tax Board (FTB) at a rate of 8.84% on its net nonexempt function income.

The Association has qualified as a tax-exempt entity with the FTB under California Revenue and Taxation Code § 23701. To maintain tax-exempt status with FTB the Association must, among other things, file an annual informational return known as Form 199 and pay a \$10 filing fee.

The Association's income tax returns are subject to examination by various taxing authorities. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

**2.10 Fair Value of Financial Instruments.** The carrying amounts of financial instruments, including cash and cash equivalents, member receivables, and accounts payable, if any, approximate their fair value due to the short term maturities of these instruments.

**2.11 Contract Liabilities (Deferred Revenue).** The Association's policies related to assessment revenues, contract liabilities and the replacement fund adhere to guidance issued by the Financial Accounting Standards Board (FASB), Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Accordingly, the Association recognizes replacement fund revenue from members as the related performance obligations are satisfied (i.e. matching replacement fund revenues with replacement fund expenses, on an annual basis). Performance obligations in contracts with customers (members) are typically satisfied as services are rendered or upon completion of the service. A contract liability (deferred revenue) 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 (deferred revenue) as of December 31, 2020 and 2019 are \$2,115 and \$0, respectively. The effect of the change in contract liabilities on replacement fund revenues is illustrated below:

<b><u>Revenue Reconciliation</u></b>	Operations Fund	Replacement Fund	Total Funds
Assessment revenue, per budget	\$ 77,259	\$ 1,200	\$ 78,459
Adjustment to assessments to match expenses	\$ -	\$ (1,200)	\$ (1,200)

See independent accountant's review report.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

Assessment revenue, per financial statements	\$	<u>77,259</u>	\$	<u>-</u>	\$	<u>77,259</u>
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### 3. Concentrations of Credit Risk

The Association maintains its deposits with what management believes to be high credit quality financial institutions and attempts to limit the amount of credit exposure to any one particular institution. The balances in those accounts may occasionally exceed the current Federal Deposit Insurance Corporation (FDIC) insurance protection of up to \$250,000 per depositor per institution. Amounts held with broker-dealers are not usually insured by the FDIC, but rather they are privately insured by the Securities Investor Protection Corporation (SIPC).

### 4. Future Major Repairs and Replacements

The Association has not conducted an independent component study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Board has also not developed a funding plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

### 5. 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 or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of new guidance as of January 1, 2020, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2020. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities related to the replacement fund, as

See independent accountant's review report.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

## FASB ASC 606 New Accounting Guidance Implementation (continued)

previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2020:

	At January 1, 2020		
	Operations Fund	Replacement Fund	Total
	Fund balance, as previously reported	\$ 50,526	\$ 800
Adjustment	-	(800)	(800)
Fund balance, as adjusted	\$ 50,526	\$ -	\$ 50,526

The effect of the adoption is a decrease in 2020 replacement fund assessments by \$1,200 and a recording of a contract liability (deferred revenue) at December 31, 2020, of \$2,115. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires 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 December 31, 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:

	Amounts That Would Have Been Reported		Total	Effects of Applying New Guidance		As Reported
	Operations Fund	Replacement Fund*		Operations Fund	Replacement Fund*	
	<b>Liabilities</b>					
Contract						
Liabilities	\$ -	\$ -	\$ -	\$ -	\$ 2,115	\$ 2,115
Total Liabilities	68,271	-	68,271	68,271	2,115	70,386
<b>Fund Balances</b>						
Ending Fund						
Balances	\$ 104,791	\$ 2,115	\$ 106,906	\$ 104,791	\$ -	\$ 104,791

*\*Note that the ending Replacement Fund balance before adoption of the revenue recognition standard FASB ASC 606 equals the Contract liabilities(deferred revenue) \$2,115 as presented on the Balance Sheet.*

See independent accountant's review report.

# Serena at Gale Ranch Owners Association

Notes to Financial Statements  
for the Year Ended December 31, 2020

## **FASB ASC 606 New Accounting Guidance Implementation (continued)**

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 December 31, 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:

	<u>Amounts That Would Have Been Reported</u>		<u>Total</u>	<u>Effects of Applying New Guidance</u>		<u>As Reported</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>		<u>Operations Fund</u>	<u>Replacement Fund</u>	
<b>Revenue</b>						
Member assessments	\$ 77,259	\$ 1,200	\$ 78,459	\$ 77,259	\$ -	\$ 77,259
Excess (deficiency) of revenues over expenses	54,265	1,200	\$ 55,465	54,265	-	54,265
<b>Cash Flows</b>						
Excess (deficiency) of revenues over expenses	\$ 54,265	\$ 1,200	\$ 55,465	\$ 54,265	\$ -	\$ 54,265
Increase in Contract liabilities	\$ -	\$ -	\$ -	\$ -	\$ 1,200	\$ 1,200

## **6. Commitments**

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

See independent accountant's review report.

# **Serena at Gale Ranch Owners Association**

Notes to Financial Statements  
for the Year Ended December 31, 2020

## **7. Date of Management's Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 16, 2021, the date that the financial statements were available to be issued.

See independent accountant's review report.