

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION

(a California nonprofit mutual benefit corporation)

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2023



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members

Rollingwood Unit No. 6 Homeowners Association

I have reviewed the accompanying financial statements of Rollingwood Unit No. 6 Homeowners Association, which comprise the balance sheet as of December 31, 2023, 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, I 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

My 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 me to perform procedures to obtain limited assurance as a basis for reporting whether I am 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. I believe that the results of my procedures provide a reasonable basis for my conclusion.

I am required to be independent of Rollingwood Unit No. 6 Homeowners Association and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my review.

Accountant's Conclusion

Based on my review, I am 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 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. The information is the responsibility of management. I have not audited, reviewed, or compiled the required supplementary information, and do not express an opinion, a conclusion, nor provide any assurance on it.

Paula E. Hegner

April 18, 2024

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
BALANCE SHEET
December 31, 2023

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash, including interest bearing deposits	\$ 75,808	\$ 175,774	\$ 251,582
Assessments receivable	2,171	14,711	16,882
Prepaid insurance	894	-	894
Due (to) from other fund	<u>(25,671)</u>	<u>25,671</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 53,202</u>	<u>\$ 216,156</u>	<u>\$ 269,358</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 4,705	\$ -	\$ 4,705
Assessments received in advance	13,786	-	13,786
Income taxes payable	110	-	110
Contract liabilities-(assessments received in advance-replacement fund)	<u>-</u>	<u>216,156</u>	<u>216,156</u>
TOTAL LIABILITIES	18,601	216,156	234,757
FUND BALANCES	<u>34,601</u>	<u>-</u>	<u>34,601</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,202</u>	<u>\$ 216,156</u>	<u>\$ 269,358</u>

See accompanying notes and independent accountant's review report.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments	\$ 44,505	\$ 35,967	\$ 80,472
Special assessment (Note E)	4,000	-	4,000
Interest income	154	1,588	1,742
Violation fines	500	6,000	6,500
Contract liability transfer	-	(43,555)	(43,555)
Late fees and other income	603	-	603
	<u>49,762</u>	<u>-</u>	<u>49,762</u>
TOTAL REVENUES	49,762	-	49,762
EXPENSES			
Accounting	495	-	495
Administration	5,928	-	5,928
Income taxes	110	-	110
Insurance	5,291	-	5,291
Landscaping	6,900	-	6,900
Legal fees	13,260	-	13,260
Management fees	12,000	-	12,000
Repairs and maintenance	6,037	-	6,037
Utilities	5,969	-	5,969
Major repairs and replacements	-	-	-
	<u>55,990</u>	<u>-</u>	<u>55,990</u>
TOTAL EXPENSES	55,990	-	55,990
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(6,228)	-	(6,228)
BEGINNING FUND BALANCES	40,829	-	40,829
ENDING FUND BALANCES	\$ 34,601	\$ -	\$ 34,601

See accompanying notes and independent accountant's review report.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2023

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ (6,228)	\$ -	\$ (6,228)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities			
(Increase) decrease in:			
Assessments receivable	10,457	(14,711)	(4,254)
Prepaid insurance	(70)	-	(70)
Due (to) from other fund	30,136	(30,136)	-
Increase (decrease) in:			
Accounts payable	2,905	-	2,905
Assessments received in advance-operating fund	(3,418)	-	(3,418)
Income taxes payable	110	-	110
Contract liabilities-(assessments received in advance-replacement fund)	-	43,555	43,555
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	33,892	(1,292)	32,600
NET INCREASE (DECREASE) IN CASH	33,892	(1,292)	32,600
CASH AT BEGINNING OF YEAR	41,916	177,066	218,982
CASH AT END OF YEAR	\$ 75,808	\$ 175,774	\$ 251,582
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			\$ -

See accompanying notes and independent accountant's review report.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE A - NATURE OF ORGANIZATION

Rollingwood Unit No. 6 Homeowners Association (the Association) was incorporated on August 8, 1977, in the State of California. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 200 residential units (131 frontage lots and 69 non-frontage lots) and is located in Fair Oaks, California.

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

NOTE B - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 18, 2024, the date that the financial statements were available to be issued.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Estimates

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

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund. The Association's policy is to account for fund expenditures using fund interest income before fund assessment income.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2023, the Association elected to be taxed as a homeowners association and filed Form 1120-H. Under this election, the Association is taxed on its nonexempt function income, such as interest earnings at a rate of 30% by the federal government and a rate of 8.84% by the State of California. Exempt function income, which consists primarily of member assessments, is not taxable. The Associations' tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and for a period of four years by California taxing authorities.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating fund 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 enforce collection of assessments by retaining legal counsel and by placing liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association, subject to a reasonable allowance for uncollectible assessments, if any, will ultimately prevail in most instances. The Association treats uncollectible assessments as credit losses. Methods, inputs, and assumptions used to evaluate when assessments are considered uncollectible include consideration of past experience and susceptibility to factors outside the Association's control. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Contract Liabilities (assessments received in advance-replacement fund)

The Association recognizes revenue from members as the 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 the satisfaction of performance obligations related to replacement fund assessments.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property have not been capitalized on the Association's financial statements. The Association capitalizes personal property and equipment to which it has title or other evidence of ownership at cost and depreciates it using the straight-line method.

Cash and Cash Equivalents

The Association considers all short term investments with an original maturity of three months or less to be cash equivalents. The Association maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 per depositor.

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. An independent study was conducted by the Browning Reserve Group for the 2024 fiscal year, to estimate the remaining useful lives and the replacement costs of the common property components. The estimates were obtained from licensed contractors who inspected the property. At the time the study was conducted, the assumed long-term interest rate earned on reserve funds was 1.5% per year, and the assumed long-term inflation rate to be applied to major component repair and replacement costs was 2.5% per year.

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 the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund 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 levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE E - SPECIAL ASSESSMENT

In September 2023, the Board of Directors approved a one-time special assessment of \$4,000 (\$20 per lot) to cover the unexpected legal fees incurred to litigate against an owner who has failed to maintain their home to an acceptable standard. The special assessment was due and payable by December 15, 2023.

ROLLINGWOOD UNIT NO. 6 HOMEOWNERS ASSOCIATION
SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2023

The Board of Directors of Rollingwood Unit No. 6 Homeowners Association contracted with the Browning Reserve Group to prepare a Replacement Reserve Study for the 2024 fiscal year, to estimate the remaining useful lives and the replacement cost of the components of common property. The estimates were based on visual inspection of the components and estimated replacement costs were based on their own construction cost estimator and on the opinion of independent contractors where they felt it necessary for outside consultation.

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

Reserve Component	Current Replacement Cost	Useful Life	Remaining Life	2023 Fully Funded Balance	2024 Fully Funded Balance	2024 Line Item Contribution based on Cash Flow Method
Paving	\$ 317,277	1-25	1-20	\$ 97,031	\$ 138,099	\$ 34,842
Concrete	1,118	5-5	1-1	895	1,145	177
Landscaping	-	3-3	0-0	-	-	-
Signage	5,039	3-3	1-1	3,359	5,165	1,326
Undesignated	1,411	1-1	1-1	706	1,447	557
Total	\$ 324,845			\$ 101,991	\$ 145,856	\$ 36,902
Estimated Ending Balance				\$ 209,994	\$ 170,374	\$ 281.69
Percent Funded				205.9%	116.8%	/Lot/year @ 131

See independent accountant's review report.