

DRAFT

**TAHOE TYROL HOMES ASSOCIATION
(A California Nonprofit Mutual Benefit Corporation)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2020 AND 2019

TAHOE TYROL HOMES ASSOCIATION

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Tahoe Tyrol Homes Association
South Lake Tahoe, California

I have reviewed the accompanying financial statements of the Tahoe Tyrol Homes Association (a California Nonprofit Mutual Benefit Corporation) which comprise the balance sheets as of December 31, 2020 and the Statements of Revenues, Expenses and Changes in Fund Balances, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical review 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 the 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.

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.

Summarized Comparative Information

I previously reviewed the Tahoe Tyrol Homes Association's December 31, 2019 financial statements and in my conclusion dated February 16, 2020, stated that based on my review, I was not aware of any material modifications that should be made to the December 31, 2019 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. I am not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2019, for it to be consistent with the reviewed financial statements from which it has been derived.

Supplementary Information

The supplementary information included in the accompanying Schedule of Operating Revenues and Expenses by Department - Budget (Compiled) and Actual, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information (except the budget, which was compiled without audit or review from information that is the representation of management, on which I do not express an opinion or any other form of assurance) is the representation of management. I have reviewed the information and, based on my review, I am not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. I have not audited the information and, accordingly do not express an opinion on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on common property on pages 13 and 14 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 required supplementary information has been compiled from information that is the representation of management. I have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

DRAFT

Sacramento, California
March 4, 2021

TAHOE TYROL HOMES ASSOCIATION

Balance Sheets

December 31, 2020

(With Summarized Totals for the Year Ended December 31, 2019)

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents	\$ 31,488	\$ 60,461	\$ 91,949	\$ 82,720
Assessments receivable	3,149	-	3,149	881
Prepaid expenses	4,133	-	4,133	3,963
Investments (Note 2)	-	55,392	55,392	54,330
Total assets	\$ 38,770	\$ 115,853	\$ 154,623	\$ 141,894
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 519	\$ -	\$ 519	\$ 4,645
Income taxes payable	-	104	104	-
Prepaid member assessments	22,463	-	22,463	22,018
Total liabilities	22,982	104	23,086	26,663
Fund balances	15,788	115,749	131,537	115,231
Total liabilities and fund balances	\$ 38,770	\$ 115,853	\$ 154,623	\$ 141,894

See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Balance Sheets

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(With Summarized Totals for the Year Ended December 31, 2019)

	2020			2019
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See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Statements of Revenues, Expenses, and Changes
in Fund Balances

For the Year Ended December 31, 2020

(With Summarized Totals for the Year Ended December 31, 2019)

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 99,112	\$ 5,304	\$ 104,416	\$ 97,440
Late charges and penalties	1,051	-	1,051	762
Post office box rental	1,320	-	1,320	1,144
Interest	16	1,098	1,114	51
Miscellaneous	83	-	83	50
Total revenues	<u>101,582</u>	<u>6,402</u>	<u>107,984</u>	<u>99,447</u>
EXPENSES				
Administration	40,280	-	40,280	40,322
Common area maintenance	14,473	-	14,473	26,437
Landscaping	15,879	-	15,879	11,640
Major repairs and replacements	-	5,254	5,254	4,200
Pool maintenance	5,551	-	5,551	5,357
Utilities	10,077	-	10,077	14,119
Income taxes	-	164	164	-
Total expenses	<u>86,260</u>	<u>5,418</u>	<u>91,678</u>	<u>102,075</u>
Excess (deficit) of revenues over expenses	15,322	984	16,306	(2,628)
Fund balances, beginning of year	466	114,765	115,231	117,859
Fund balances, end of year	<u>\$ 15,788</u>	<u>\$ 115,749</u>	<u>\$ 131,537</u>	<u>\$ 115,231</u>

See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Statements of Cash Flows

For the Year Ended December 31, 2020

(With Summarized Totals for the Year Ended December 31, 2019)

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Excess (deficit) of revenues over expenses	\$ 15,322	\$ 984	\$ 16,306	\$ (2,628)
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:				
(Increase) decrease in:				
Assessments receivable	(2,268)	-	(2,268)	419
Prepaid expenses	(170)	-	(170)	(626)
Increase (decrease) in:				
Accounts payable	(4,126)	-	(4,126)	2,723
Income taxes payable	-	104	104	-
Prepaid assessments	445	-	445	3,135
Net cash provided by operating activities	<u>9,203</u>	<u>1,088</u>	<u>10,291</u>	<u>3,023</u>
Cash Flows From Investing Activities:				
Matured certificate of deposit	-	54,330	54,330	-
Reinvestment of certificate of deposit	-	(55,392)	(55,392)	(7)
Net cash used in investing activities	<u>-</u>	<u>(1,062)</u>	<u>(1,062)</u>	<u>(7)</u>
Net increase (decrease) in cash and cash equivalents	9,203	(1,062)	(45,101)	3,016
Cash and cash equivalents, beginning of year	<u>22,285</u>	<u>60,435</u>	<u>82,720</u>	<u>79,704</u>
Cash and cash equivalents, end of year	<u>\$ 31,488</u>	<u>\$ 59,373</u>	<u>\$ 90,861</u>	<u>\$ 82,720</u>
Supplemental Disclosure:				
Income taxes paid	<u>\$ -</u>	<u>\$ 117</u>	<u>\$ 117</u>	<u>\$ -</u>

See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Notes to Financial Statements
December 31, 2020 and 2019

Note 1: **Organization and Summary of Significant Accounting Policies**

A. **Organization**

The Tahoe Tyrol Homes Association (“Association”), was formed in August of 1973 and is a non-profit corporation organized under the Non-Profit Mutual Benefit Corporation Laws of California. The primary purpose of the Association is to own, repair, maintain, and manage certain common areas of the development, to enforce the rules and regulations adopted by the Board of Directors, and to discharge such other lawful duties and responsibilities required pursuant to the Corporations’s Bylaws and the Declaration of Covenants, Conditions, and Restrictions. The Association consists of 116 residential lots and 5 common area lots located in South Lake Tahoe, California.

B. **Date of Management Review**

In preparing the financial statements, the Association evaluated events and transactions for potential recognition or disclosure through March 4, 2021, the date the financial statements were available to be issued.

C. **Method of Accounting**

The Association's policy is to prepare its financial statements on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses when the related liability is incurred.

D. **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 purposes:

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.

TAHOE TYROL HOMES ASSOCIATION

Notes to Financial Statements
December 31, 2020 and 2019

Note 1: **Organization and Summary of Significant Accounting Policies** (continued)

E. **Income Taxes**

Homeowners' associations may elect to be taxed as regular corporations or as homeowners' associations. The Association has elected to be taxed as a homeowners association for both 2020 and 2019. Under that election, the Association is generally taxed on non-exempt function income such as investment earnings at a flat 30% federal and 8.84% state tax rate. Exempt function income, consisting of membership dues and assessments, is exempt from taxation if qualifying criteria are satisfied. For the years ended December 31, 2020 and 2019, income tax expense was \$164 and 0.

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years (four years for California) after the returns are filed, and the Association's federal and state income tax returns for 2017, 2018 and 2019 remain open to examination.

F. **Member 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 is satisfied over time on a daily pro-rata basis using the input method. 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 the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Because of the collection procedures available to the Board, subject to a reasonable allowance for uncollectible accounts, all assessments are collectible. Assessments receivable at December 31, 2020 and 2019 amounted to \$3,149 and \$881, respectively.

G. **Topic 606, Revenue from Contracts with Customers, ("Topic 606" in the Accounting Standards Codification (ASC))**

For 2020, the Association has adopted the provisions of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, ("Topic 606" in the Accounting Standards Codification (ASC)). Topic 606 superseded the revenue recognition requirements

TAHOE TYROL HOMES ASSOCIATION

Notes to Financial Statements
December 31, 2020 and 2019

Note 1: **Organization and Summary of Significant Accounting Policies** (continued)

G. **Topic 606, Revenue from Contracts with Customers, (“Topic 606” in the Accounting Standards Codification (ASC)**

in FASB ASC 972-605, Real Estate—Common Interest Realty Associations, Revenue Recognition. Under Topic 606, the Association must identify a contract with a customer, among other things, and recognize revenue as the Association satisfies a performance obligation.

As described in Note 1 F, Association members are subject to assessments that provide funds for the Association’s operating expenses and major repairs and replacements. Association management has considered Topic 606 and concluded that Association members are not customers as defined in the ASC. As such, all assessment revenue, including amounts allocated to the replacement fund, is recognized in the period in which they are assessed, regardless of when they are collected or expended. This treatment is substantially consistent with the Association’s accounting in previous years.

Contract revenue consists of member assessments. This revenue is recognized as the performance obligations are satisfied, in accordance with Topic 606, at transaction amounts expected to be collected. The Association’s performance obligations related to its contract revenue is satisfied on a monthly basis as services are performed. A contract liability (income received in advance) is recorded when the Association has the right to receive payment in advance of the performance obligations related to the income.

Substantially all of the Association’s contract revenue pertains to services that were completed prior to December 31, 2020, therefore the balance of the Association’s contract liabilities was \$0 as of December 31, 2020. No significant revenue was recognized in the current year resulting from performance obligations satisfied in previous periods.

In summary, the adoption of the new revenue recognition guidance did not result in any changes to the fund balances as of January 1, 2020 or the balance sheet or results of operations for the year ended December 31, 2020.

H. **Property and Equipment**

Common areas acquired from the developer and related improvements to such property are not capitalized in the Association's financial statements because the economic benefits inure to the individual property owners and not to the Association.

TAHOE TYROL HOMES ASSOCIATION

Notes to Financial Statements
December 31, 2020 and 2019

Note 1: **Organization and Summary of Significant Accounting Policies** (continued)

H. **Property and Equipment** (continued)

Personal property, such as equipment, having a cost of \$1,000 or more acquired by the Association is capitalized in the operating fund at cost and depreciated over its useful life using the straight-line method.

I. **Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. **Cash and Cash Equivalents**

For purposes of the *Statements of Cash Flows*, the Association considers investments with a maturity, from the date of purchase, of three months or less as cash and cash equivalents.

K. **Interest Income**

Interest income is allocated to the Operating and Replacement Fund in proportion to the interest-bearing deposits of each fund.

L. **Prior Year Summarized Totals**

The financial statements include certain prior-year summarized comparative information in total but not by fund. 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 December 31, 2019 of the prior year, from which the information was derived.

Note 2: **Investments**

A portion of the regular monthly assessments is used to accumulate funds for future major repairs and replacement expenditures. The investments account represents the amount restricted for these purposes and is invested in a certificates of deposit. For the years ended December 31, 2020 and 2019, the Association held one certificate of deposit in the amount of \$55,392 and \$54,330, respectively. The certificate of deposit is insured by the FDIC for up to \$250,000.

TAHOE TYROL HOMES ASSOCIATION

Notes to Financial Statements
December 31, 2020 and 2019

Note 3: **Replacement Fund**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for normal operations. At December 31, 2020 and 2019, these funds aggregated \$115,853 and \$114,765, respectively.

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. Should the ultimate amount of required expenditures exceed the amount of funds available, the Association is authorized to levy a special assessment against the homeowners, provided there is a 51% majority vote from all voting members.

Note 4: **Commitments and Contingencies**

The Association enters into contracts for the management and for maintenance of common property. These contracts are renewable and can be cancelled by notice of either party.

Note 5: **Risks and Uncertainties**

Due to the outbreak of the COVID-19 virus, almost all aspects of the economy have been adversely affected. Given the continued existence of the pandemic and the attendant measures that have been implemented to contain its spread, the financial impact on the Association's financial position, going forward, is uncertain.

SUPPLEMENTARY INFORMATION

TAHOE TYROL HOMES ASSOCIATION
Schedule of Operating Revenues and Expenses-
Budget (Compiled) and Actual by Department
December 31, 2020

	Budget	Actual	Variance
OPERATING REVENUES			
Member assessments	\$ 99,112	\$ 99,112	\$ -
Late charges, collection costs and penalties	-	1,051	1,051
Post office box rental	972	1,320	348
Interest	-	16	16
Miscellaneous	-	83	83
Total operating revenues	<u>100,084</u>	<u>101,582</u>	<u>1,498</u>
OPERATING EXPENSES			
Administration			
Management fee	23,340	23,340	-
Insurance	8,632	9,221	(589)
Accounting and review	2,000	2,286	(286)
Legal	1,000	650	350
Late fee processing	-	620	(620)
Office expense	2,650	1,919	731
Postage and bulk mailings	200	1,759	(1,559)
Meetings	1,400	-	1,400
Communications	200	142	58
Property taxes	-	306	(306)
Secretary of state - filing fees	10	10	-
Social	300	27	273
Total administration	<u>39,732</u>	<u>40,280</u>	<u>(548)</u>
Common area maintenance			
General repairs and maintenance	10,400	11,773	(1,373)
Patrol service	12,672	-	12,672
Snow removal	1,200	2,700	(1,500)
Total common area maintenance	<u>24,272</u>	<u>14,473</u>	<u>9,799</u>
Landscaping			
Tree maintenance	15,000	15,379	(379)
Plants, bark and soil	1,000	500	500
Total landscaping	<u>16,000</u>	<u>15,879</u>	<u>121</u>

See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Schedule of Operating Revenues and Expenses-
Budget (Compiled) and Actual by Department - Continued

December 31, 2020

	Budget	Actual	Variance
Pool maintenance			
Chemicals	\$ 3,850	\$ 4,595	\$ (745)
Repairs	1,000	99	901
Inspection fee	820	857	(37)
Total pool maintenance	5,670	5,551	119
Utilities			
Gas	6,900	3,087	3,813
Electricity	4,300	3,329	971
Water	3,200	3,661	(461)
Total utilities	14,400	10,077	4,323
Income taxes	10	-	10
Total operating expenses	100,084	86,260	13,824
Excess of operating revenues over operating expenses	\$ -	\$ 15,322	\$ 15,322

See accompanying notes and accountant's report

TAHOE TYROL HOMES ASSOCIATION

Supplementary Information on Future Major Repairs and Replacements (Unaudited) For the Year Ended December 31, 2020

The Association engaged the services of an independent consultant to conduct an update to their reserve study in 2020 year. The study is effective for the 2021 year. The purpose of the study is to forecast the Association's ability to repair or replace major components as they wear out in future years. It should be noted that the reserve study is not an engineering report.

The "Cash Flow" method was used as the basis for the replacement forecast. The Cash Flow method focuses on the contributions necessary, over a thirty-year time horizon, to offset the variable annual forecasted expenditures made from the Replacement Fund. One of the objectives of the Cash Flow method is to always maintain a positive replacement cash balance over the thirty-year horizon. The forecast assumes a 2.5% cost inflation factor for components and a 2.5%, before-tax, return on invested funds.

Based on the study's assumptions and projections, at December 31, 2020, the Association was approximately 120% funded.

The forecasted expenditures outlined in the study are for budgetary purposes only. 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. Also, any latent defects are excluded from the reserve study.

Presented on the following page is a summary of the reserve study update and presents significant information about the components of the common property. The complete reserve study is available from the Association and is also included in the annual disclosure document.

TAHOE TYROL HOMES ASSOCIATION

Schedule of Supplementary Information on Future Major Repairs
and Replacements (Compiled)

For the Year Ended December 31, 2020

Component	Estimated Current Replacement Cost	Estimated Useful Life (Yrs.)	Estimated Remaining Useful Life (Yrs.)	2020 Replacement Contribution
Paving	\$ 22,599	2-20	1-3	\$ 869
Concrete	20,003	25-25	16-16	294
Painting - exterior	11,491	3-8	1-4	493
Structural repairs	5,493	5-5	1-1	279
Roofing	9,875	25-25	21-21	164
Rehabilitation	8,669	15-30	3-3	106
Gate equipment	582	5-5	1-1	30
Pool	19,799	5-20	1-8	472
Spa	9,681	5-10	1-4	316
Recreation	7,183	20-30	1-14	82
Fencing	3,102	2-2	2-2	135
Signage	2,100	8-8	2-2	68
Mechanical equipment	1,815	15-20	1-1	28
Flooring	3,128	12-12	2-2	68
Miscellaneous	13,449	1-30	1-6	836
Reserve study	1,500	3-3	0-0	124
Undesignated	1,077	1-1	1-1	136
Total	<u>\$ 141,546</u>			<u>\$ 4,500</u>