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December 4, 2020

To the Board of Directors
Paseo Master Homeowners' Association, Inc.

We have audited the financial statements of Paseo Master Homeowners' Association, Inc. ("the Association") for the year ended December 31, 2019, and have issued our report thereon dated December 4, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 17, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Paseo Master Homeowners' Association, Inc. are described in Note 3 to the financial statements. Other than the implementation of FASB ASC 606, no new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. As applicable, management has corrected all such misstatements. Enclosed you will find the proposed adjusting journal entries approved by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 3, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of the Board of Directors and management of Paseo Master Homeowners' Association, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Gerstle, Rosen & Goldenberg P.A.

GERSTLE, ROSEN & GOLDENBERG, P.A.
Certified Public Accountants



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December 4, 2020

Board of Directors
Paseo Master Homeowners' Association, Inc.

Dear Board Members:

In planning and performing our audit of the financial statements of Paseo Master Homeowners' Association, Inc. for the year ended December 31, 2019, we considered the internal control in order to determine our auditing procedures. As a result of our analysis we are bringing the following matters to your attention:

1. The balance of the account at BB&T bank exceeds \$250,000, which is the maximum deposit amount that the FDIC will insure. In February 2020, the Association moved these funds to an ICS account therefore keeping them in compliance with FDIC.

We welcome the opportunity to discuss the above.

Very truly yours,

Gerstle, Rosen & Goldenberg, P.A.

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PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Unit Owners
Paseo Master Homeowners' Association, Inc.

Dear Members:

Report on the Financial Statements

We have audited the accompanying financial statements of Paseo Master Homeowners' Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paseo Master Homeowners' Association, Inc., as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Board of Directors and Unit Owners
Paseo Master Homeowners' Association, Inc.

Effect of Adopting New Accounting Standard

As discussed in Note 4 to the financial statements, as of January 1, 2019, the Association adopted the new revenue guidance FASB ASC 606, *Revenue from Contracts with Customers*, the first applicable year. This new standard supersedes accounting standards that previously existed under GAAP and provides a comprehensive principle-based framework for recognizing revenue. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information On Future Major Repairs and Replacements

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The Detailed Statement of Operating Revenues and Expenses Budget Comparison is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Gerstle, Rosen & Goldenberg, P.A.

Gerstle, Rosen & Goldenberg, P.A.
Certified Public Accountants
Fort Myers, Florida

December 4, 2020

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

BALANCE SHEET

December 31, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash and Cash Equivalents	\$ 180,015	\$ 345,720	\$ 525,735
Certificate of Deposit	600,000	300,000	900,000
Accounts Receivable	9		9
Other Receivable	16,258		16,258
Accrued Interest Receivable	3,510	1,764	5,274
Prepaid Expenses	51,581		51,581
Prepaid Insurance	10,304		10,304
Inventory	29,183		29,183
Deposits	14,133	32,272	46,405
TOTAL ASSETS	\$ 904,993	\$ 679,756	\$ 1,584,749
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 24,432	\$	\$ 24,432
Accrued Expenses	190,125		190,125
Sales Tax Payable	7,371		7,371
Deferred Revenue	6,803		6,803
Deferred Maintenance	1,595		1,595
Deferred Income e-card	1,589		1,589
Contract Liabilities - Deferred Reserves		679,756	679,756
TOTAL LIABILITIES	231,915	679,756	911,671
Fund Balances	673,078	0	673,078
TOTAL LIABILITIES AND FUND BALANCES	\$ 904,993	\$ 679,756	\$ 1,584,749

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

Year Ended December 31, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Maintenance Fees	\$ 3,003,385	\$ 436,190	\$ 3,439,575
Catering Bar Sales	3,307		3,307
Resident Bar Sales	527,077		527,077
Interest Income	4,999	1,808	6,807
Capital Contribution	175,500		175,500
Catering Food Sales	58,987		58,987
Resident Food Sales	523,228		523,228
Catering Other Income	10,774		10,774
Retail/Logo Merch Gen	13,282		13,282
Sales Tax Allowance	360		360
Activities Income	9,357		9,357
Theater Income	23		23
Tennis Sales	12,250		12,250
Spa Sales	3,591		3,591
	4,346,120	437,998	4,784,118
TOTAL REVENUES			
EXPENSES			
Administrative	123,451		123,451
Utilities	1,023,845		1,023,845
Contracts	56,916		56,916
Insurance	58,177		58,177
Park Expenses	891		891
Cost Of Sales	453,293		453,293
Culinary Expenses	89,750		89,750
Front Of House Expenses	203,578		203,578
Other Amenities	41,171		41,171
Fitness Expenses	13,239		13,239
Tennis Expenses	57,243		57,243
Pool/Fountain Expenses	87,766		87,766
Grounds	141,005		141,005
Reserve Expenditures		437,998	437,998
Repairs And Maintenance	128,430		128,430
Special Projects	237,111		237,111
Payoll Expenses	1,616,868		1,616,868
	4,332,734	437,998	4,770,732
TOTAL EXPENSES			
EXCESS REVENUES (EXPENSES)	13,386		13,386
FUND BALANCES - BEGINNING	535,477	207,946	743,423

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

Year Ended December 31, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
INTERFUND TRANSFER	(500,000)	500,000	0
DEVELOPER SETTLEMENT	696,920		696,920
CHANGE IN ACCOUNTING POLICY		(707,946)	(707,946)
WRITE OFF OF FIXED ASSETS	(72,705)		(72,705)
FUND BALANCES - ENDING	<u>\$ 673,078</u>	<u>\$ 0</u>	<u>\$ 673,078</u>

The Accompanying Notes Are An Integral Part Of This Financial Statement.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2019

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
EXCESS REVENUES (EXPENSES)	\$ 13,386	\$	\$ 13,386
ADJUSTMENTS TO RECONCILE EXCESS REVENUES (EXPENSES) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Developer Settlement	696,920		696,920
Change In Accounting Policy		(707,946)	(707,946)
Write Off Of Fixed Assets	(72,705)		(72,705)
DECREASE (INCREASE) IN ASSETS:			
Unit Owner Receivable	(9)		(9)
Other Receivable	17,131		17,131
Due From Developer	3,080		3,080
Accrued Interest Receivable	(3,510)	(1,764)	(5,274)
Prepaid Expenses	(15,372)		(15,372)
Prepaid Insurance	(10,304)		(10,304)
Inventory	8,305		8,305
Property and Equipment	72,705		72,705
Deposits	(5,083)	(32,272)	(37,355)
Due To/From Funds	46,408	(46,408)	
INCREASE (DECREASE) IN LIABILITIES:			
Accounts Payable	(324,777)		(324,777)
Accrued Expenses	190,125		190,125
Sales Tax Payable	7,371		7,371
Prepaid Maintenance Fees	(1,335)		(1,335)
Deferred Revenue	6,803		6,803
Deferred Maintenance	1,595		1,595
Deferred Income e-card	1,589		1,589
Contract Liabilities - Deferred Reserves		679,756	679,756
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>632,323</u>	<u>(108,634)</u>	<u>523,689</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Certificate of Deposit	(600,000)	(300,000)	(900,000)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>(600,000)</u>	<u>(300,000)</u>	<u>(900,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund Transfer	(500,000)	500,000	0
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(500,000)</u>	<u>500,000</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	(467,677)	91,366	(376,311)
CASH AND CASH EQUIVALENTS			
AT BEGINNING OF PERIOD	<u>647,692</u>	<u>254,354</u>	<u>902,046</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 180,015</u>	<u>\$ 345,720</u>	<u>\$ 525,735</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

1. ORGANIZATION

Paseo Master Homeowners' Association, Inc. is a statutory homeowners' association incorporated on May 17, 2006, in the State of Florida. The Association is responsible for the operation and maintenance of the common property of Paseo Master Homeowners' Association, Inc. and consists of 1,146 units located in Fort Myers, Florida.

2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 4, 2020, the date that the financial statements were available to be issued.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association uses the accrual method of accounting, i.e., revenues are recognized as earned and expenses are recorded in the period in which they are 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.

Member Assessments

Association members are subject to quarterly, 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.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2019

3. 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 plus late fees, if applicable from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent according to its collection policy. Management determines the allowance for doubtful accounts by identifying troubled accounts through periodic review of accounts receivable aging schedules. No allowance for uncollectible accounts is deemed necessary. 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 \$-0- and \$9, respectively.

Deferred Reserves - Contract Liabilities (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 reserve assessments. The balances of contract liability (assessments received in advance – Replacement Fund) as of the beginning and end of the year are \$-0- and \$679,756, respectively.

Cash and Cash Equivalents

For presentation purposes, cash and cash equivalents consists of checking and money market accounts.

Certificates of Deposit

The Association holds certificates of deposit totaling \$900,000, bearing interest ranging from 1.74% to 2.6%. These certificates have original maturities of greater than 90 days, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Property and Equipment

Real property and common area property acquired from the developer and related improvements to such property are not recorded in the Association's financial statements. Although they are owned by the Association, the Board of Directors cannot dispose of the property and the property does not generate any significant cash flow. Capital Expenditures are charged to the designated funds. Generally, personal property purchased by the Association is expensed.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
Continued**

December 31, 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The Association uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Fair Value Measurement

Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The Association has determined that there was no material difference between the carrying value and fair value of its financial assets and liabilities at December 31, 2019; therefore, no adjustment for the effect of FASB ASC 820 was made to the Association's financial statements at December 31, 2019.

4. DEFERRED RESERVES – CONTRACT LIABILITIES - FUTURE MAJOR REPAIRS AND REPLACEMENTS / ACCOUNTING POLICY RESTATED

Florida Statutes provide that each proposed budget include provisions for reserves for capital improvements and deferred maintenance. These accounts, if adopted, are restricted to their intended purpose unless modified by a qualified unit owner vote. In addition, any special assessments adopted are also restricted to their specific purpose.

The Association is funding the future major repairs and replacements based on a study conducted by an original engineer's study in May 2019 to estimate the remaining useful lives and the replacement costs of the common property components, as disclosed in the Supplementary information. 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, the Association has the right to increase regular assessments levy special assessments, or delay major repairs and replacements until funds are available.

The Association has adopted the pooling method which allows the Association to utilize all available replacement funds for future projects rather than only using funds designated for each individual replacement component.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
Continued**

December 31, 2019

4. DEFERRED RESERVES – CONTRACT LIABILITIES - FUTURE MAJOR REPAIRS AND REPLACEMENTS / ACCOUNTING POLICY RESTATED (Continued)

The balance of the Replacement Fund at December 31, 2019, consists of the following:

COMPONENTS	BALANCE 12/31/2018	INTEREST/ ASSESSMENTS	OPERATING TRANSFER	EXPENSES	RECLASS TO CONTRACT LIABILITY	BALANCE 12/31/2019	RESTATE CONTRACT LIABILITY 12/31/2019
Pooled	\$196,837	\$408,000	\$500,000	(\$435,459)	(\$669,378)	\$0	\$669,378
Street Paving	5,359	0	0	0	(5,359)	0	5,359
Roof Reserves	5,019	0	0	0	(5,019)	0	5,019
Interest	731	1,808	0	(2,539)	0	0	0
TOTAL	\$207,946	\$409,808	\$500,000	(\$437,998)	(\$679,756)	\$0	\$679,756

The Association does not allocate interest earned on the replacements fund to specific replacement components as earned, but does so periodically depending on projected requirements.

Reserves – Commitments

During 2019, the Association incurred expenditures with Edward Don & Company in the amount of \$105,816 for furniture and kitchen equipment, Hein Brothers in the amount of \$103,164 for interior and exterior painting, Infinite Aqua for \$78,280 for mobilization and renovation of lap pools, Reynolds Home Comfort for \$36,180 for new air conditioning units, Commercial Fitness in the amount of \$100,243 for new gym equipment and \$14,315 for other expenses.

FASB ASC 606 New Accounting Standard 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 Association, 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 an Association expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to the beginning fund balances. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to Replacement Fund expenditures/contracts that were not complete as of January 1, 2019.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**NOTES TO FINANCIAL STATEMENTS
Continued**

December 31, 2019

4. DEFERRED RESERVES – CONTRACT LIABILITIES - FUTURE MAJOR REPAIRS AND REPLACEMENTS / ACCOUNTING POLICY RESTATED (Continued)

FASB ASC 606 New Accounting Standard Implementation (Continued)

Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liability (assessments– received in advance Replacement Fund).

The modified retrospective method of transition requires us to disclose the effect of applying the new standard on each item included in our current year financial statements. The line items from our Balance Sheet as of year-end that were affected, the amounts that would have been reported under the former standard, the effects of applying the new standard, and the balances reported under the new standards are as follows:

	Replacement Fund Old Standard	Replacement Fund New Standard	
LIABILITIES AND FUND BALANCES			
Contract Liability - Deferred Reserves	\$0	\$679,756	
TOTAL LIABILITIES	0	679,756	
Fund Balances	679,756	0	
TOTAL LIABILITIES AND FUND BALANCES	\$679,756	\$679,756	

The line items from the Statement of Revenues, Expenses and Changes in Fund Balances as of year-end that were affected, the amounts that would have been reported under the former standard, the effects of applying the new standard, and the amounts reported under the standards are as follows:

	Replacement Fund Old Standard	Replacement Fund New Standard	
	(Per Budget)	(Expenses Less Any) (Allocated Interest)	Variance
Maintenance Fees	\$408,000	\$436,190	(\$28,190)

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2019

5. INCOME TAXES

The Association is subject to federal and state taxation and has essentially two methods to determine the amount of tax, if any, it must pay. Under one method, the excess of revenues from members over related expenditures is subject to taxation unless such excess is returned to the unit owners or applied to the following year's assessments (Section 277 of the Internal Revenue Code). The other method enables the Association to elect to exclude from taxation "exempt function income," (Section 528 of the Internal Revenue Code), which generally consists of revenue from unit owner assessments. Under either method, the Association may be subject to tax on investment income and other non-exempt income, but at different rates.

The Association will file its 2019 federal income tax return on Form 1120 under Section 277 of the Internal Revenue Code.

There is no current year provision for income taxes.

The Association has evaluated its tax positions and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC").

The Association has no income tax returns under examination by the Internal Revenue Service. The Association believes it is no longer subject to income tax examinations for years prior to 2016.

6. INVENTORY

Inventory is stated at the lower of cost or net realizable value, principally determined using the first-in, first-out method. Inventory consists of bar supplies, food and beverage products.

7. WRITE OFF FIXED ASSETS

The Association had property and fixed assets recorded on the financial statements in prior years. Although real property and common area property acquired from the Developer is owned by the Association, it does not generate any significant cash flow and it cannot be disposed of by the Board of Directors. Therefore, the property and fixed assets in the amount of \$72,705 have been written off as of December 31, 2019.

8. CONCENTRATION OF CREDIT RISK

As of December 31, 2019, the Association maintained cash and cash equivalent balances which exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. The Association has not experienced any losses related to these cash balances and believes it is not exposed to any significant risk on these accounts.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
Continued

December 31, 2019

9. WORKING CAPITAL

Upon the initial sale of a unit from the Developer or the resale of a unit, the purchaser is obligated to pay a capital contribution. For the year-ended December 31, 2019, the capital contribution amount was \$1,500. These funds, available for capital improvements and deferred maintenance, are reflected on the financial statements as Capital Contributions. In 2019, the Association collected \$175,500.

10. SPECIAL PROJECTS / CAPITAL IMPROVEMENTS

During 2019, the Association incurred \$237,111 in capital expenditures; \$112,000 to Honc Marine Contracting for installation of fifty-six anchors for the retaining wall and \$125,111 to other vendors for various smaller projects.

11. COMMITMENTS

The Association has various contract services to maintain the common property including management services, common area landscaping, pool service, trash service, pest control and elevator contract. These contracts have different expiration dates and renewal terms. The Association has a contract for cable service that terminates on April 25, 2020. A contract with a new cable company begins on that same day with a term of ten (10) years.

12. CONTINGENCIES

Insurance Deductible

The current property insurance policy contains a deductible for hurricane damage. Should the Association incur an uninsured loss, the Association has the right to increase maintenance fees, pass a special assessment or delay repairs until funds are available.

Legal

The Association is from time-to-time subject to complaints and claims, including litigation, arising in the ordinary course of business. As of the date of this report, management believes that there are no claims or complaints of which it is currently aware that will materially affect its business, financial position, or future operating results.

13. SETTLEMENT INCOME - DEVELOPER

The Association recognized settlement income in the amount of \$696,920 from the Developer for construction and accounting claims.

SUPPLEMENTARY INFORMATION

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS**

**December 31, 2019
(Unaudited)**

In May 2019, the Association conducted an independent reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on estimates from historical experience. Actual expenditures may vary from these estimated amounts and the variance may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs. 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.

The following presents significant information about the components of common property:

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIVES</u>	<u>ESTIMATED CURRENT REPLACEMENT COSTS</u>	<u>2020 FUNDING REQUIREMENT</u>
Building Service Elements	1 - 49 Years	\$339,500	\$0
Exterior Building Elements	0 - 24 Years	920,228	0
Interior Building Elements	1 - 24 Years	1,227,291	0
Pool Facility Elements	0 - 34 Years	1,972,658	0
Property Site Elements	0 - 19 Years	853,734	0
Pooled Reserves			418,608
TOTAL		<u>\$5,313,411</u>	<u>\$418,608</u>

See independent auditors' report.

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>REVENUES:</u>			
Master Maintenance	3,003,385	3,003,384	1
Catering Bar Sales	3,307	6,000	(2,693)
Resident Bar Sales	527,077	506,000	21,077
Interest Income	4,999	204	4,795
Capital Contribution	175,500	0	175,500
Catering Food Sales	58,987	47,004	11,983
Resident Food Sales	523,228	500,000	23,228
Catering Other Income	10,774	3,600	7,174
Retail/Logo Merch Gen	13,282	8,000	5,282
Sales Tax Allowance	360	360	0
Activities Income	9,357	12,000	(2,643)
Theater Income	23	0	23
Tennis Sales	12,250	15,000	(2,750)
Spa Sales	3,591	12,000	(8,409)
TOTAL REVENUES	<u>4,346,120</u>	<u>4,113,552</u>	<u>232,568</u>
<u>EXPENSES:</u>			
<u>ADMINISTRATIVE</u>			
Accounting Fees	18,245	24,000	5,755
Annual Corp Report	61	60	(1)
G&A - Cash (over) short	1,536	96	(1,440)
Communication	2,367	6,000	3,633
Engineering Fees	1,200	0	(1,200)
Holiday Decorations	7,517	9,000	1,483
Insurance Appraisal	550	0	(550)
Legal Fees - HOA Matters	30,558	48,000	17,442
Licenses & Permits-Elevators	445	240	(205)
Office & Administrative	26,341	15,996	(10,345)
Office Supplies	17,659	18,000	341
Off Equip Leased	9,448	12,000	2,552
Overhead Fee KW	6,000	6,000	0
Web Hosting & Internet	1,524	6,000	4,476
TOTAL ADMINISTRATIVE	<u>123,451</u>	<u>145,392</u>	<u>21,941</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES (Continued):</u>			
<i><u>UTILITY</u></i>			
Cable	779,575	753,254	(26,321)
Electricity	141,012	140,429	(583)
Cable TV/Internet	11,164	12,300	1,136
Gas	187	3,696	3,509
Telephone Service Contract	7,150	6,000	(1,150)
Telephone-Elevators	592	600	8
Waste	18,358	20,340	1,982
Water & Sewer	65,807	83,022	17,215
<i>TOTAL UTILITY</i>	<u>1,023,845</u>	<u>1,019,641</u>	<u>(4,204)</u>
<i><u>CONTRACTS</u></i>			
Elevator Contract	2,551	2,400	(151)
IT Services	29,227	36,000	6,773
Property Management Contract	25,138	25,722	584
<i>TOTAL CONTRACTS</i>	<u>56,916</u>	<u>64,122</u>	<u>7,206</u>
<i><u>INSURANCE</u></i>			
Insurance Expense	58,177	54,000	(4,177)
<i>TOTAL INSURANCE</i>	<u>58,177</u>	<u>54,000</u>	<u>(4,177)</u>
<i><u>PARK EXPENSES</u></i>			
Park Expenses - Equipment R&M	891	3,996	3,105
Park Expenses-Irrigation	0	480	480
<i>TOTAL PARK EXPENSES</i>	<u>891</u>	<u>4,476</u>	<u>3,585</u>
<i><u>COST OF GOODS SOLD</u></i>			
COGS-Food	260,861	202,388	(58,473)
COGS-Bar	192,432	184,320	(8,112)
<i>TOTAL COST OF GOODS SOLD</i>	<u>453,293</u>	<u>386,708</u>	<u>(66,585)</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES (Continued):</u>			
<i><u>CULINARY</u></i>			
Culinary - Equip Leased	8,505	9,000	495
Culinary - Equipment R&M	18,508	12,000	(6,508)
Culinary - Equip Purchases	9,828	8,004	(1,824)
Culinary - Kitchen Lines	6,433	6,996	563
Culinary - Licenses/Fees	1,817	1,800	(17)
Culinary - Spoilage	115	1,200	1,085
Culinary - Supplies	17,592	5,004	(12,588)
Culinary - Uniforms	2,756	1,200	(1,556)
Culinary - Waste Removal/ Grease Trap	2,883	1,200	(1,683)
Culinary - Chem/Cleaning	11,329	9,996	(1,333)
Culinary - Cooking Fuels	9,984	9,000	(984)
<i>TOTAL CULINARY</i>	<u>89,750</u>	<u>65,400</u>	<u>(24,350)</u>
<i><u>FRONT OF HOUSE(FOH) EXPENSES</u></i>			
FOH - China/Glass/Silver	12,168	12,000	(168)
FOH -Credit Card Chg Exp	34,021	30,000	(4,021)
FOH - Flowers & Decorations	13,987	9,000	(4,987)
FOH - Linen	21,554	21,996	442
FOH - Licenses & Fees	7,723	4,800	(2,923)
FOH - Menu & Signage	1,844	3,000	1,156
FOH - Music & Entertainment	55,950	60,000	4,050
FOH - Supples Paper/Plastic	42,405	30,000	(12,405)
FOH - Uniforms	5,397	4,800	(597)
FOH - POS System	8,529	7,500	(1,029)
<i>TOTAL FRONT OF HOUSE(FOH) EXPENSES</i>	<u>203,578</u>	<u>183,096</u>	<u>(20,482)</u>
<i><u>OTHER AMENITIES</u></i>			
Rec Center - Café	25,730	24,000	(1,730)
Rec Center - Computer Lab	188	3,600	3,412
Rec Center - Lifestyles Association	13,283	30,000	16,717
Rec Center - Theater Supples	1,970	2,400	430
<i>TOTAL OTHER AMENITIES</i>	<u>41,171</u>	<u>60,000</u>	<u>18,829</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES (Continued):</u>			
<i><u>FITNESS CENTER</u></i>			
Rec Ctr - Fitness Ctr	10,399	8,004	(2,395)
Rec Ctr - Fitness Center Equipment Repair	2,840	2,400	(440)
<i>TOTAL FITNESS CENTER</i>	<u>13,239</u>	<u>10,404</u>	<u>(2,835)</u>
<i><u>TENNIS EXPENSES</u></i>			
Tennis Court - Clay	0	2,004	2,004
Tennis Court - Golf Cart	281	1,200	919
Tennis Court - Tool & Maintenace	13,432	3,996	(9,436)
Tennis Maintenance Contract	43,530	43,504	(26)
<i>TOTAL TENNIS EXPENSES</i>	<u>57,243</u>	<u>50,704</u>	<u>(6,539)</u>
<i><u>POOL/FOUNTAIN EXPENSES</u></i>			
Pool/Fountain - Gas/Fuel/Oil	6,089	0	(6,089)
Pool/Fountain - Licenses	813	276	(537)
Pool/Fountain - R&M	34,039	18,000	(16,039)
Pool/Fountain - Contract	46,825	45,096	(1,729)
<i>TOTAL POOL/FOUNTAIN EXPENSES</i>	<u>87,766</u>	<u>63,372</u>	<u>(24,394)</u>
<i><u>GROUNDS</u></i>			
Grounds - Lawn Contract	79,320	82,001	2,681
Grounds - Landscape Replacement	25,156	19,992	(5,164)
Grounds - Pest Control	4,299	15,372	11,073
Grounds - Irrgation R&M	23,712	16,404	(7,308)
Grounds - Tree Trimming	8,518	4,104	(4,414)
<i>TOTAL GROUNDS</i>	<u>141,005</u>	<u>137,873</u>	<u>(3,132)</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES (Continued):</u>			
<u>MAINTENANCE & REPAIRS</u>			
Building Repairs	80,108	60,000	(20,108)
Fire Extinguisher Equipment	1,247	1,500	253
Fire Alarm Maintenance	4,290	1,200	(3,090)
Fire Sprinkler Inspection	100	1,200	1,100
Fire Sprinkler Repair	132	2,004	1,872
Fire Sprinkler Monitoring	783	600	(183)
Tiki Heater - Propane	761	1,200	439
HVAC Maintenance	2,903	7,200	4,297
Housekeeping Supplies	26,992	18,000	(8,992)
Keyscan/Mag Locks	0	3,000	3,000
Light Bulbs	815	3,600	2,785
Pest Control	1,500	2,796	1,296
Retail Items/Logos	7,960	8,000	40
Signage	589	900	311
Theater & Sound System	250	756	506
Teak Refurbishment	0	3,000	3,000
TOTAL MAINTENANCE & REPAIRS	<u>128,430</u>	<u>114,956</u>	<u>(13,474)</u>
<u>SPECIAL PROJECTS</u>			
Retaining Wall	114,260	0	(114,260)
Other Projects	34,035	0	(34,035)
Capital Contribution Projects	88,816	0	(88,816)
TOTAL SPECIAL PROJECTS	<u>237,111</u>	<u>0</u>	<u>(237,111)</u>
<u>PAYROLL EXPENSES</u>			
Payroll - F&B	841,451	817,522	(23,929)
Member Services	81,495	100,708	19,213
Payroll - Pool Monitor	104,631	146,981	42,350
Payroll - Administrative	402,709	399,925	(2,784)
Payroll - Maintenance	186,582	261,272	74,690
TOTAL PAYROLL EXPENSES	<u>1,616,868</u>	<u>1,726,408</u>	<u>109,540</u>
<u>CONTINGENCY</u>			
Misc/Contingency Exp	0	27,000	27,000
TOTAL CONTINGENCY	<u>0</u>	<u>27,000</u>	<u>27,000</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC

SUPPLEMENTARY INFORMATION

DETAILED STATEMENT OF REVENUES AND EXPENSES
BUDGET COMPARISON
OPERATING FUND

Year Ended December 31, 2019

	<u>ACTUAL</u>	<u>BUDGET (Unaudited)</u>	<u>VARIANCE</u>
<u>EXPENSES (Continued):</u>			
Total Operating Expenses	<u>4,332,734</u>	<u>4,113,552</u>	<u>(219,182)</u>
Excess Operating Revenues (Expenses)	<u>\$13,386</u>	<u>\$0</u>	<u>\$13,386</u>

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC
PROPOSED ADJUSTING JOURNAL ENTRIES
December 31, 2019

	CLIENT ACCOUNT NUMBER	DEBIT	CREDIT
1			
FUND BALANCE	39000	\$8,957	
PRIOR YEAR ADJUSTMENT	38500		8,957
<i>to reverse in 2020 prior year adjustments (for 2019)</i>			
2			
FUND BALANCE	39000	34,811	
ACCUMULATED DEPRECIATION	12020	150,380	
GOLF CARTS	14000		4,982
GYM EQUIPMENT	14002		38,273
POOL EQUIPMENT	14005		3,641
RESTAURANT EQUIPMENT	14006		8,688
FURNITURE & FIXTURES	14012		129,607
<i>to write off fixed assets and closeout to fund balance</i>			
3			
CAPITAL CONTRIBUTIONS	30000	86,684	
FUND BALANCE	39000		86,684
<i>to close out at 12/31/19</i>			
		\$280,832	\$280,832

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC
WORKING TRIAL BALANCE
December 31, 2019

ACCOUNT TITLE	CLIENT ACCOUNT NUMBER	CLIENT T/B		ADJUSTMENTS		CPA F/S	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
<u>BALANCE SHEET</u>							
ASSETS:							
OPERATING - BB&T BANK	10010		30,650	-	-		30,650
OPERATING - BB&T ICS	10014	186,556		-	-	186,556	
OPERATING - BB&T PURCHASING ACCOUNT	10012	22,009		-	-	22,009	
OPERATING VALLEY NATL CD 4/30/20 2.6%	10015	200,000		-	-	200,000	
OPERATING - TIAA	10016	200,000		-	-	200,000	
OPERATING - OZK BANK 12/30/.20 1.741%	10017	200,000		-	-	200,000	
PETTY CASH	10300	2,100		-	-	2,100	
RESERVE - BB&T BANK	10050	345,719		1	-	345,720	
RESERVE VALLEY NATL CD 4/30/20 2.6%	10051	100,000		-	-	100,000	
RESERVE - CITY NATIONAL 12/30/20 1.75%	10052	200,000		-	-	200,000	
ACCOUNTS RECEIVABLE	11000	9		-	-	9	
OTHER RECEIVABLES	11170	16,258		-	-	16,258	
PREPAID EXPENSES	13000	51,581		-	-	51,581	
PREPAID INSURANCE	13010	10,304		-	-	10,304	
INVENTORY - BEVERAGE	13017	13,549		-	-	13,549	
INVENTORY - FOOD	13018	12,656		-	-	12,656	
INVENTORY - RETAIL GOODS	13019	2,978		-	-	2,978	
ACCRUED INTEREST RECEIVABLE RESERVE	13021	1,764		-	-	1,764	
ACCRUED INTEREST RECEIVABLE OPERATI	13022	3,510		-	-	3,510	
GOLF CARTS	14000	4,982		-	4,982	0	
GYM EQUIPMENT	14002	38,273		-	38,273	0	
POOL EQUIPMENT	14005	3,641		-	3,641	0	
RESTAURANT EQUIPMENT	14006	8,688		-	8,688	0	
FURNITURE & FIXTURES	14012	129,607		-	129,607	0	
ACCUMULATED DEPRECIATION	12020		150,380	150,380	-		0
DEPOSITS	15000	46,405		-	-	46,405	

PASEO MASTER HOMEOWNERS' ASSOCIATION, INC
WORKING TRIAL BALANCE
December 31, 2019

ACCOUNT TITLE	CLIENT ACCOUNT NUMBER	CLIENT T/B		ADJUSTMENTS		CPA F/S	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
LIABILITIES & EQUITY:							
ACCOUNTS PAYABLE	21010		24,432	-	-		24,432
ACCRUED EXPENSES	21020		181,168	-	8,957		190,125
SALES TAX PAYABLE	21070		7,371	-	-		7,371
DEFERRED REVENUE	21096		6,803	-	-		6,803
DEFERRED MAINTENANCE	21130		1,595	-	-		1,595
DEFERRED INCOME (E-CARD)	21131		1,589	-	-		1,589
STREET PAVING	32671		5,359	-	-		5,359
POOLED RESERVES	32740		669,378	-	-		669,378
ROOF RESERVE	32781		5,019	-	-		5,019
RESERVE INCOME	32508		436,191	1	-		436,190
CURRENT YEAR INTEREST EARNED	32570.1		1,808	-	-		1,808
RESERVE EXPENSES	32619	437,998		-	-	437,998	
CAPITAL CONTRIBUTION	30000		86,684	86,684	-		0
RETAINED EARNINGS	39000		535,477	-	-		535,477
CURRENT YEAR NET INCOME/(LOSS)			94,683	-	42,918		137,601
		\$2,238,587	\$2,238,587	\$237,066	\$237,066	\$2,053,397	\$2,053,397
		\$0	\$0	\$0	\$0	\$0	\$0

ENDING FUND BALANCE PER CPA F/S SHOULD EQUAL:

\$673,078