

Preston Park

City of Marina, California

Special-Purpose Financial Statements
and Independent Auditor's Report

June 30, 2021



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Preston Park
City of Marina, California

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Financial Section



INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Marina, California

Report on the Special-Purpose Financial Statements

We have audited the accompanying special-purpose financial statements of Preston Park (the Property), which comprise the statement of financial position as of June 30, 2021, the related statements of activities, functional expenses and cash flows, for the year then ended, and the related notes to the special-purpose financial statements.

Management's Responsibility for the Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the basis of accounting described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these special-purpose 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 special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Property's preparation and fair presentation of the special-purpose 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 Property'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 special-purpose financial statements.

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



Opinion

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of Preston Park as of June 30, 2021, and the changes in net assets and cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1 to the special-purpose financial statements.

Basis of Accounting

We draw attention to Note 1 of the special-purpose financial statements, which describes the basis of accounting. The special-purpose financial statements were prepared to present the financial position of Preston Park as of June 30, 2021, excluding the Property's capital assets and loans payable, and the changes in its net position and cash flows for the fiscal year ending June 30, 2021, for the purpose of complying with the management agreement dated December 7, 2007 between Alliance Communities, Inc., the City of Marina (See Note 1). These special-purpose financial statements are not intended to be a complete presentation of the Property's assets, liabilities, and activities. Please refer to the City of Marina's annual financial report for a complete presentation of the financial position of Preston Park. Our opinion was not modified with respect to this matter.

C & A LLP

October 7, 2022
Morgan Hill, California

Special-Purpose Financial Statements

Preston Park
Special-Purpose Statement of Financial Position
June 30, 2021

ASSETS

Cash and cash equivalents:	
Cash in banks and on hand	\$ 1,573,208
Capital reserve money market, equipment purchases	7,009,994
Restricted cash and cash equivalents, escrow accounts	186,940
Tenant receivables	65,486
Prepaid items	147,091
Total assets	<u><u>8,982,719</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 183,746
Deferred revenue	93,699
Security deposits	568,309
Total liabilities	<u>845,754</u>

Net assets:

With donor restrictions:

 Purpose restrictions:

Tax escrow	121,244
Insurance escrow	65,696
Total net assets with donor restrictions	<u>186,940</u>

Without donor restrictions:

Board designated capital reserves	7,009,994
Undesignated	940,031
Total net assets without donor restrictions	<u>7,950,025</u>
Total net assets	<u>8,136,965</u>
Total liabilities and net assets	<u><u>\$ 8,982,719</u></u>

The accompanying notes are an integral part of these financial statements.

Preston Park
Special-Purpose Statement of Activities
For the Fiscal Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Rental income	\$ 7,096,871	\$ -	\$ 7,096,871
Other revenue and support	1,203	-	1,203
Investment income	12,205	-	12,205
Net assets released from purpose restrictions	4,684	(4,684)	-
Total revenue and support	<u>7,114,963</u>	<u>(4,684)</u>	<u>7,110,279</u>
EXPENSES			
Program expenses:			
Housing and property management	3,859,938	-	3,859,938
Total program expenses	<u>3,859,938</u>	<u>-</u>	<u>3,859,938</u>
Change in net assets from operations	<u>3,255,025</u>	<u>(4,684)</u>	<u>3,250,341</u>
Distributions to the City of Marina	<u>(1,750,071)</u>	<u>-</u>	<u>(1,750,071)</u>
Beginning net assets	7,158,210	191,624	7,349,834
Prior period adjustment to remove loan costs from special purpose financial statements	<u>(713,139)</u>	<u>-</u>	<u>(713,139)</u>
Beginning net assets, as adjusted	<u>6,445,071</u>	<u>191,624</u>	<u>6,636,695</u>
Ending net assets	<u>\$ 7,950,025</u>	<u>\$ 186,940</u>	<u>\$ 8,136,965</u>

The accompanying notes are an integral part of these financial statements.

Preston Park
Special-Purpose Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2021

	Program Expenses
	Housing and Property Management
Administration payroll	113,305
Leasing payroll	76,072
Cleaning payroll	13,725
Grounds payroll	22,473
Overtime	43,740
Bonuses	2,833
Check processing fees	870
Payroll taxes	47,502
Insurance benefits	6,488
401k contributions	52,272
Workers compensation	38,348
Payroll other	6,801
Landscaping	50,224
Utilities	129,263
Marketing	10,587
Administrative	71,355
Maintenance	112,811
Redecorating	183,907
Management fees	176,047
Insurance	221,809
Property taxes	144,684
Professional services	1,215
Nonroutine maintenance and capital outlay	645,876
Interest expense	1,512,646
Total expenses	<u>\$ 3,859,938</u>

The accompanying notes are an integral part of these financial statements.

Preston Park
Special-Purpose Statement of Cash Flows
For the Fiscal Year Ended June 30, 2021

Cash flows from operating activities:	
Changes in net assets	\$ 3,250,341
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Tenant receivables	(53,208)
Prepaid items	(7,245)
Escrow accounts	4,684
Accounts payable and accrued expenses	(57,708)
Deferred revenue	29,279
Security deposits	18,807
Cash provided by (used for) operating activities	<u>3,184,950</u>
Cash flows from financing activities:	
Distributions to the City of Marina	<u>(1,750,071)</u>
Cash provided by (used for) financing activities	<u>(1,750,071)</u>
Change in cash and cash equivalents	1,434,879
Cash and cash equivalents at beginning of period	<u>7,148,323</u>
Cash and cash equivalents at the end of period	<u>\$ 8,583,202</u>
Reconciliation of Cash and Cash Equivalents:	
Cash in banks and on hand	\$ 1,573,208
Capital reserve money market account, equipment purchases	<u>7,009,994</u>
Total cash and cash equivalents	<u>\$ 8,583,202</u>

The accompanying notes are an integral part of these financial statements.

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2021

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Preston Park (the Property) is the Preston Park Sustainable Community Nonprofit Corporation, a 501(c)(3) organization, and consists of 354 apartment units located at 682 Wahl Court, Marina, California. The complex is owned by the City of Marina who has a management agreement with Alliance Communities, Inc.

Basis of Presentation and Basis of Accounting

The Property has prepared the accompanying special-purpose financial statements to present the assets, liabilities, activities, and cash flows of the Property as of June 30, 2021, excluding the Property's capital assets and loans payable, pursuant to the management agreement (Management Agreement) between the City of Marina and Alliance Communities, Inc. dated December 7, 2007. The agreement specifies that the Property prepare special-purpose financial statements in which the activities of the housing units are presented in accordance with United States generally accepted accounting principles, excluding the Property's capital assets and loans payable, which are reported in the financial statements of the City of Marina. Please refer to the City of Marina's annual financial report for a complete presentation of the financial position of Preston Park.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short-term maturities of those financial instruments.

Cash Restricted for Equipment Purchases

As required by the City of Marina, the Property maintains a capital reserve cash account for future capital purchases. As of June 30, 2021, the reserve balance was \$7,009,994.

Cash Restricted for Escrow Accounts

The Property had cash held in Escrow for taxes of \$121,244 and insurance of \$65,696.

Financial Instruments and Credit Risk

The Property manages deposit concentration risk by placing cash with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. Through June 30, 2021, the Property has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates. As of June 30, 2021, the carrying amount of the Organization's total cash in banks was \$8,581,202 and the bank balance of the Organization's accounts with banks was \$8,551,362, which was \$8,051,362 in excess of Federal

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2021

Depository Insurance Corporation (FDIC) coverage. FDIC covers up to \$250,000 per bank for each entity.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. As the Property's bank accounts are held by the City of Marina, collateral is pledged to cover the deposits at a margin of 110% as required.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Deferred Revenue

Deferred revenue consists of tenant rental prepayments.

Security Deposits

Security deposits consists of tenant up-front cash payments required to secure the rental units.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations.

Revenue and Revenue Recognition

Revenue Recognition - Contracts with Customers Accounted for in Accordance with ASC 606

The Property recognizes revenue when it satisfies a performance obligation by transferring a promised good to, or performing a service for, a tenant. The amount of revenue recognized reflects the consideration the Property expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Property combines it with other performance obligations until a distinct bundle of goods or services exists. Performance obligations are satisfied over time and the related revenue is recognized as services are rendered. The Property management expects that the period between when the Property transfers services to their customers and when the customers pay for those goods and services will be one year or less. Therefore, the Property elected the practical expedient not to adjust the promised amount of consideration for the effects of a significant financing component.

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2021

Rent Revenue

The Property provides services to individuals that ultimately furthers the mission of the Property, yet provides reciprocal value to these persons. Services include housing and property management programs. The Property considers housing and property management as services available to its tenants throughout the period of rental in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-25-22.

The Property has a right to consideration from its tenants in an amount that corresponds directly with the value provided to its tenants upon the Property's date of completed performance. Fees are billed as services are provided. Tenants simultaneously receive and consume the benefits provided by the Property's performance obligations throughout the rental period as services are provided. Therefore, the Property recognizes revenues as the services are provided. Rent and other payments received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Vacancy loss is recorded as a reduction in rental income. Rental units occupied by employees are included in gross rental income and as an offset through a revenue contra account to derive the net rental income as presented in the special-purpose statement of activities. There were no unsatisfied performance obligations as of June 30, 2021.

Advertising Costs

Advertising costs are charged to operations when incurred and totaled \$10,587 during the year ended June 30, 2021.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function.

Concentrations

For the year ended June 30, 2021, the majority of the Property's funding came from tenant's rent. Tenant's rental income comprised 99.81% of total revenue.

Use of Estimates

The preparation of special-purpose financial statements in conformity with basis of accounting previously described requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the special-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2021

NOTE 2 - LIQUID AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,573,208
Tenant receivables	<u>65,486</u>
Total available for general expenditure	<u><u>\$ 1,638,694</u></u>

As part of the Property's liquidity management plan, the Property deposits cash in savings and money market accounts.

NOTE 3 - MANAGEMENT AGREEMENT

As discussed in Note 1, the Property is managed under a management agreement between the City of Marina and Alliance Communities, Inc. Management fees paid to Alliance Communities, Inc., for the year ended June 30, 2021 totaled \$176,047.

NOTE 4 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2021, through the date the special-purpose financial statements were available to be issued, October 7, 2022. Beginning in March 2020, the United States economy began suffering adverse effects from the COVID 19 Virus Crisis ("CV19 Crisis"). As of the date of issuance of the special-purpose financial statements, the Property had not yet suffered material adverse impact from the CV19 Crisis. However, the future impact of the CV19 Crisis cannot be reasonably estimated.