

Preston Park

City of Marina, California

Special-Purpose Financial Statements
and Independent Auditor's Report

June 30, 2022



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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 Audit of the Special-Purpose Financial Statements

Opinion

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, 2022, 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.

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, 2022, 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 for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Property and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Special-Purpose Financial Statements

Property 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Property's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually



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or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Property's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, 2022, 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, 2022, 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

May 31, 2023
Morgan Hill, California

***Special-Purpose
Financial Statements***

Preston Park
Special-Purpose Statement of Financial Position
June 30, 2022

ASSETS

Cash and cash equivalents:

Cash in banks and on hand	\$ 1,119,579
Capital reserve money market, equipment purchases	8,018,230
Restricted cash and cash equivalents, escrow accounts	195,087
Tenant receivables	139,364
Prepaid items	214,348
Total assets	<u><u>\$ 9,686,608</u></u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 207,457
Deferred revenue	64,714
Security deposits	575,142
Total liabilities	<u><u>847,313</u></u>

Net assets:

With donor restrictions:

 Purpose restrictions:

Tax escrow	134,575
Insurance escrow	60,512
Total net assets with donor restrictions	<u>195,087</u>

Without donor restrictions:

Board designated capital reserves	8,018,230
Undesignated	625,978
Total net assets without donor restrictions	<u>8,644,208</u>
Total net assets	<u>8,839,295</u>
Total liabilities and net assets	<u><u>\$ 9,686,608</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT			
Rental income	\$ 7,263,985	\$ -	\$ 7,263,985
Other revenue and support	30,104	-	30,104
Net assets released from purpose restrictions	(8,147)	8,147	-
Total revenue and support	7,285,942	8,147	7,294,089
EXPENSES			
Program expenses:			
Housing and property management	4,841,763	-	4,841,763
Total program expenses	4,841,763	-	4,841,763
Change in net assets from operations	2,444,179	8,147	2,452,326
Distributions to the City of Marina	(1,749,996)	-	(1,749,996)
Beginning net assets	7,950,025	186,940	8,136,965
Ending net assets	\$ 8,644,208	\$ 195,087	\$ 8,839,295

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, 2022

	Program Expenses
	Housing and Property Management
Administration payroll	\$ 130,813
Leasing payroll	101,761
Maintenance payroll	179,581
Cleaning payroll	21,544
Grounds payroll	11,032
Overtime	23,075
Bonuses	1,325
Payroll taxes	37,134
Insurance benefits	45,171
401k contributions	6,405
Workers compensation	36,101
Landscaping	49,210
Utilities	135,705
Marketing	3,030
Administrative	278,919
Maintenance	171,805
Redecorating	144,963
Management fees	71,021
Insurance	199,704
Property taxes	132,816
Professional services	13
Nonroutine maintenance and capital outlay	1,554,101
Interest expense	1,506,534
Total expenses	<u>\$ 4,841,763</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, 2022

Cash flows from operating activities:	
Changes in net assets	\$ 2,452,326
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Tenant receivables	(73,878)
Prepaid items	(67,257)
Escrow accounts	(8,147)
Accounts payable and accrued expenses	23,712
Deferred revenue	(28,985)
Security deposits	6,833
Cash provided by (used for) operating activities	<u>2,304,604</u>
Cash flows from financing activities:	
Distributions to the City of Marina	<u>(1,749,996)</u>
Cash provided by (used for) financing activities	<u>(1,749,996)</u>
Change in cash and cash equivalents	554,608
Cash and cash equivalents at beginning of period	<u>8,583,201</u>
Cash and cash equivalents at the end of period	<u>\$ 9,137,809</u>
Reconciliation of Cash and Cash Equivalents:	
Cash in banks and on hand	\$ 1,119,579
Capital reserve money market account, equipment purchases	8,018,230
Total cash and cash equivalents	<u>\$ 9,137,809</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, 2022

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, 2022, 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 Reserved 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, 2022, the reserve balance was \$8,018,230.

Cash Restricted for Escrow Accounts

The Property had cash held in Escrow for taxes of \$134,575 and insurance of \$60,512.

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, 2022, 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, 2022, the carrying amount of the Organization's total cash in banks was \$9,135,809 and the bank balance of the Organization's accounts with banks was \$9,149,411, which was \$8,649,411 in excess of Federal

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2022

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 consist 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 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 and not subject to donor (or grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed (or certain grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled.

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

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2022

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.

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, 2022.

Advertising Costs

Advertising costs are charged to operations when incurred and totaled \$3,030 during the year ended June 30, 2022.

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, 2022, the majority of the Property's funding came from tenant's rent. Tenant's rental income comprised 99.70% of total revenue.

Preston Park
Notes to the Special-Purpose Financial Statements
for the Fiscal Year Ended June 30, 2022

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.

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	\$ 1,119,579
Tenant receivables	139,364
Less:	
Accounts payable and accrued expenses	(207,457)
Security deposits	(575,142)
Deferred revenue	(64,714)
With Donor Restrictions	(195,087)
Total available for general expenditure	<u>\$ 216,543</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, 2022 totaled \$71,021.

NOTE 4 - SUBSEQUENT EVENTS

Management has evaluated all subsequent events from the statement of financial position date of June 30, 2022, through the date the special-purpose financial statements were available to be issued, May 31, 2023. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.