

Date: 7/16/2021

RE: Talega Gallery Community Association – Seagarden Cost Center
Audit for Fiscal Year Ending March 31, 2021
Owner Notice Disclosure Form

Dear Owner:

California Civil Code § 5305 and your CC&Rs require that an independent review of the financial operations of your association be conducted at the end of each fiscal year.

Your Board of Directors has engaged the services of VanDerPol and Company, to conduct an annual audit of the Association's financial statements. Their report is enclosed for your files.

It is suggested that you read this information carefully and keep these reports with all other documents concerning your property, as it may be necessary to show this information to any prospective buyers of your property.

Also included with this packet is an Owner Notice Disclosure form. Each year, all owners are required to provide specific information as required by California Civil Code § 4041 to ensure that the membership is kept informed. **Please complete the form and return it within 10 days to ensure you have met your obligations as required by the State of California.**

Please note that the names and addresses of the current members are located at the offices of Seabreeze Management Company, Inc. Should you have any questions regarding the enclosed information, please contact Mike Pratali, at Michael.pratali@seabreezemgmt.com.

Sincerely,

The Board of Directors for the
Talega Gallery Community Association

Enclosures



BAY AREA
COACHELLA VALLEY
INLAND EMPIRE
LAS VEGAS
LOS ANGELES
ORANGE COUNTY
SAN DIEGO

**Talega Gallery Community Association
Owner Notice Disclosure
Date: 7/16/2021**

California law requires Owners in a community association to provide the following information to the association **on an annual basis**. Please fill out and return this form to Seabreeze Management Company, Inc. within ten (10) days. If this form is not returned, then by law Association notices will only be sent to the last property address provided by you, or if none was received, the property address within this association.

Owner Name(s): _____

Owner Phone Number: (___) ___ - ___ Owner email(s): _____

1. Address in the community association: _____
2. Address you wish Association notices to be delivered: _____

3. Any alternate or secondary address to which notices from the association are to be delivered:

4. The name and address of your legal representative, if any, including any person with power of attorney or other person who can be contacted in the event of your extended absence from your property:

5. Your property is (please check one): Owner-occupied Rented out
If rented, your tenant's cell phone # _____ email: _____
6. Is your property developed but vacant? (please check one) Yes No
7. Is your property undeveloped land? (please check one) Yes No
8. Civil Code provides homeowners with an opportunity to "OPT OUT" of sharing their names, property address, and mailing address on the association's membership list. *This opt out shall remain in effect until changed by the homeowners.*
Would you like to "Opt Out"? Yes No

Please return this form within 10 days to:
Talega Gallery Community Association
c/o Seabreeze Management Company, Customer Care
26840 Aliso Viejo Pkwy, Suite 100
Aliso Viejo, CA 92656
customercare@seabreezemgmt.com

VanDerPol and Company

A Professional Accountancy Corporation

151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

July 13, 2021

Talega Gallery - Seagarden Cost Center
c/o Seabreeze Management Company
26840 Aliso Viejo Parkway, Suite 100
Aliso Viejo, California 92656

To the Board of Directors:

Enclosed you will find the final version of the financial statements for Talega Gallery - Seagarden Cost Center. These statements should be distributed to the owners, in their **entirety**. If you should have any questions, please contact our office for further explanation.

Again, it has been a pleasure providing service for your Association.

Sincerely,



VanDerPol and Company
A Professional Accountancy Corporation

Enclosures

TALEGA GALLERY - SEAGARDEN COST CENTER
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2021

TALEGA GALLERY - SEAGARDEN COST CENTER

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VanDerPol and Company

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151 Kalmus Drive, #M-3A, Costa Mesa, California 92626

(714) 437-1025, FAX (714) 437-5900

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Talega Gallery - Seagarden Cost Center

Report on the Financial Statements

We have audited the accompanying financial statements of Talega Gallery - Seagarden Cost Center, which comprise the balance sheet as of March 31, 2021, 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 Talega Gallery - Seagarden Cost Center as of March 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 12 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.

Van Der Pol and Company

VANDERPOL AND COMPANY
A Professional Accountancy Corporation

Costa Mesa, California

May 27, 2021

TALEGA GALLERY - SEAGARDEN COST CENTER
BALANCE SHEET
AS OF MARCH 31, 2021

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents [Note 8]	\$ 5,514	\$ 23,356	\$ 28,870
Investments [Note 9]	--	25,007	25,007
Prepaid insurance	875	--	875
Total Assets	\$ 6,389	\$ 48,363	\$ 54,752
 LIABILITIES			
Accounts payable and accrued expenses	\$ 1,266	\$ 2,625	\$ 3,891
Prepaid assessments	1,099	--	1,099
Due to Talega Gallery	400	16	416
Contract liability [Note 4]	--	45,303	45,303
Total Liabilities	2,765	47,944	50,709
FUND BALANCES	3,624	419	4,043
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,389	\$ 48,363	\$ 54,752

See independent auditors' report and accompanying notes to financial statements.

TALEGA GALLERY - SEAGARDEN COST CENTER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Member assessments [Note 3]	\$ 24,499	\$ 12,105	\$ 36,604
Investment income	--	50	50
Other income	144	--	144
	<u>24,643</u>	<u>12,155</u>	<u>36,798</u>
Total Revenues			
EXPENSES			
Utilities:			
Electricity	893	--	893
Water	6,367	--	6,367
Maintenance:			
Pest control	2,015	--	2,015
Other common area maintenance	3,152	--	3,152
Roof and related repairs	--	10,484	10,484
Building repairs	--	1,621	1,621
Administrative:			
Insurance	10,248	--	10,248
Professional fees	1,010	--	1,010
Income taxes [Note 7]	--	16	16
	<u>23,685</u>	<u>12,121</u>	<u>35,806</u>
Total Expenses			
EXCESS OF REVENUES OVER EXPENSES	958	34	992
Beginning Fund Balances	<u>2,666</u>	<u>385</u>	<u>3,051</u>
Ending Fund Balances	<u>\$ 3,624</u>	<u>\$ 419</u>	<u>\$ 4,043</u>

See independent auditors' report and accompanying notes to financial statements.

TALEGA GALLERY - SEAGARDEN COST CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2021

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess of revenues over expenses	\$ 958	\$ 34	\$ 992
Adjustments to reconcile excess of revenues over expenses to net cash provided/(used) by operating activities:			
Decrease in member assessments receivable	15	--	15
Decrease in accrued interest receivable	--	557	557
Increase in prepaid insurance	(875)	--	(875)
Increase/(decrease) in accounts payable	643	2,625	3,268
Increase in prepaid assessments	267	--	267
Increase/(decrease) in due to Talega Gallery	400	(181)	219
Increase in contract liability	--	6,495	6,495
Net cash provided by investing activities	<u>1,408</u>	<u>9,530</u>	<u>10,938</u>
Cash flows from investing activities			
Acquisition of mutual funds	--	(25,000)	(25,000)
Maturity of certificates of deposit	--	25,000	25,000
Interest reinvested in mutual funds	--	(7)	(7)
Net cash used by investing activities	<u>--</u>	<u>(7)</u>	<u>(7)</u>
Net increase in cash	1,408	9,523	10,931
Cash at beginning of year	<u>4,106</u>	<u>13,833</u>	<u>17,939</u>
Cash at end of year	<u>\$ 5,514</u>	<u>\$ 23,356</u>	<u>\$ 28,870</u>

See independent auditors' report and accompanying notes to financial statements.

TALEGA GALLERY - SEAGARDEN COST CENTER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 1. ORGANIZATION

Talega Gallery – Seagarden Cost Center [Cost Center] was established in 2001 as a separate entity under the corporate veil of the Talega Gallery Community Association [Talega Gallery]. The purpose of the Cost Center is to separately account for additional assessments collected from 41 owners within the Seagarden Tract of Talega Gallery, located in San Clemente, California. The additional assessments are collected in order to provide for certain maintenance items pertaining only to the Seagarden homes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Cost Center are maintained on the accrual basis of accounting. The tax returns are also reported on the accrual basis of accounting.

Capitalization Policy and Depreciation - In accordance with industry standards, the Cost Center has not capitalized in the financial statements the common area real property acquired at its inception from the developer. Replacements and improvements to the real property which are directly associated with the units are also not capitalized. They are instead charged directly to either the Operating Fund or the Replacement Fund in the period they are incurred.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight-line method of depreciation. During the year ended March 31, 2021, there were no significant personal property additions.

Fund Accounting - The Cost Center's accompanying financial statements have been prepared using fund accounting. Under this method of accounting, financial resources are separated into two categories, the Operating Fund and the Replacement Fund. Disbursements from the Replacement Fund generally may be made only for designated repair or replacement of major common area components. Disbursements from the Operating Fund are at the discretion of the Board of Directors and generally are for on-going repairs, maintenance, and administrative functions.

Investment Income - The Board's policy is to allocate interest earned on Replacement Fund cash to the Replacement Fund, and to pay the related income taxes out of the Replacement Fund when reimbursing Talega Gallery.

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

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Cost Center members are subject to paying assessments to fund the Cost Center's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected.

TALEGA GALLERY - SEAGARDEN COST CENTER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE – (CONTINUED)

Under the new revenue recognition standard of ASC 606 [Note 5], the Cost Center (an entity) has a performance obligation to the unit/unit owners (customers). The Cost Center's approved annual Operating Fund budget establishes the maintenance, management, and administrative services that the Cost Center is obligated to perform. These services can be bundled together as a single commercial objective and a single performance obligation. The budget establishes an implied contract price, and because these services are provided within an annual cycle, the respective Operating Fund assessments are considered revenue for the current period.

The performance obligations related to Replacement Fund assessments are satisfied when these financial resources are expended for their designated purpose.

For the year ended March 31, 2021, the Cost Center's monthly assessment was \$87.60 per unit. For the 2021/2022 fiscal year, the monthly assessment has been raised to \$105 per unit.

Assessments receivable at March 31, 2021 represent assessments and other fees due from owners. The Cost Center's governing documents provide for various collection remedies for delinquent assessments, including filing of liens on the owner's unit, foreclosing on the unit owner, or obtaining judgment on other assets of the unit owner.

Under ASC 606, assessments and other fees that cannot be collected with certainty are now charged against the respective revenue rather than bad debt expense. Bad debt expense will still be used to account for uncollectible receivable balances that were recorded in prior periods.

NOTE 4. CONTRACT LIABILITY

The Cost Center recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Cost Center has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. The contract liability balance at the beginning of the year and end of the year was \$38,808 and \$45,303, respectively.

NOTE 5. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued new guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a new revenue recognition standard that affects businesses that enter into contracts with customers to transfer goods and services, including public, private and non-public entities. The purpose of the standard is to eliminate variations in the way businesses across industries handle accounting for similar transactions. FASB ASC 606 went into effect for annual reporting periods beginning after December 15, 2018. FASB ASC 606 supersedes the revenue recognition requirements of FASB ASC 972-605 and most industry-specific revenue guidance in the FASB ASC, including the accounting guidance that Common Interest Realty Cost Centers (CIRAs) followed in previous years.

TALEGA GALLERY - SEAGARDEN COST CENTER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Cost Center's governing documents, which require that funds be accumulated for future major repairs and replacements, the Cost Center has established certain amounts as reserves for future capital expenditures. Members' assessments relating to the replacement funding program are considered capital contributions from members' dues and as such are restricted in usage. Disbursements are to be made only if specifically approved by the Board of Directors.

An independent study of the Cost Center's replacement funding program was conducted in November 2020 and recommends a contribution to the Replacement Fund of approximately \$25,056 (\$50.93 per unit per month) for the fiscal year ending March 31, 2022 using the "directed cash flow" method. The study's recommendations were based on estimates of remaining useful lives, current replacement costs, and amounts accumulated in the Replacement Fund. For the year ended March 31, 2021, the Cost Center funded \$18,600 from assessments to the Replacement Fund. The 2021/2022 budget includes the study's recommended amount for replacement funding. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Cost Center is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the Replacement Fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts collected for replacement obligations may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Cost Center has the right, subject to the Cost Center's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. INCOME TAXES

The financial records of the Cost Center are combined with those of Talega Gallery for income tax reporting purposes. The resulting tax liability is initially paid by Talega Gallery and allocated to the Cost Center proportionately. For the year ended March 31, 2021, the total tax expense allocated to the Cost Center was \$16.

The Cost Center utilizes the liability method of accounting for income taxes. Under the liability method deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Cost Center's assets and liabilities, the Cost Center has not recorded any deferred tax assets or liabilities.

The Cost Center has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by an association. Management believes that all of the positions taken by the Cost Center in its federal and state income tax returns are more likely than not to be sustained upon examination. The Cost Center's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

TALEGA GALLERY - SEAGARDEN COST CENTER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2021

NOTE 8. SCHEDULE OF CASH BALANCES

Generally, certificates of deposit and other debt securities with original maturities less than 90 days are considered cash equivalents, while certificates of deposits and debt securities with maturities over 90 days are considered "investments."

At March 31, 2021, the Cost Center maintained cash balances at the following institutions:

Operating Fund:

Union Bank - checking	<u>\$ 5,514</u>
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Replacement Fund:

Morgan Stanley - money funds	<u>\$ 23,356</u>
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NOTE 9. INVESTMENTS

The Association's investments consist of open end non-sweep treasury security mutual funds. Investment income from these investments is recorded when earned. The investments are considered to be held to maturity and are carried at cost, which approximates the fair value. At March 31, 2021, the Association's investments totaled \$25,007.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes amounted to \$197 for the year ended March 31, 2021. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 27, 2021, which is the date the financial statements were available to be issued.

The COVID-19 pandemic developed rapidly in 2020. Measures taken by various governments to contain the virus have affected economic activity. As a result, economic uncertainties have arisen. The financial impact, if any, and overall effects to the Association cannot be reasonably estimated at this time.

TALEGA GALLERY - SEAGARDEN COST CENTER
 REQUIRED SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 AS OF MARCH 31, 2021
 (UNAUDITED)

An independent reserve study was conducted in November 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 2.0%. These estimates are used as a foundation in arriving at recommended funding requirements, based upon cash and investments which have been collected for future repairs and replacements, earning a yield on funds of 0.2%.

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

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>	<u>2021/2022 Recommended Funding Requirement</u>	<u>Study's Recommended Fund Balance</u>
Roofs	0 years	\$ 12,000	\$ 5,378	\$ 12,000
Painting	0-5 years	88,810	16,396	57,510
Fire system test	0 years	2,000	369	2,000
Termite inspection	0 years	3,280	2,913	3,280
	Total	<u>\$ 106,090</u>	<u>\$ 25,056</u>	<u>\$ 74,790</u>
The accumulated contract liability and Replacement Fund balance at 3/31/21:				<u>\$ 45,722</u>