

VanDerPol and Company

A Professional Accountancy Corporation

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

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

August 13, 2024

Talega Gallery Community Association
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 Community Association. 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 COMMUNITY ASSOCIATION
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2024

TALEGA GALLERY COMMUNITY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Talega Gallery Community Association

Opinion

We have audited the accompanying financial statements of Talega Gallery Community Association, which comprise the balance sheet as of March 31, 2024, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Talega Gallery Community Association as of March 31, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Talega Gallery Community Association 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Talega Gallery Community Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 opinion. 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 generally accepted auditing standards 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, including omissions, are considered material if there is a substantial likelihood that, individually 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 generally accepted auditing standards, 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 Talega Gallery Community Association'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 Talega Gallery Community Association'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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property on page 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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

August 1, 2024

TALEGA GALLERY COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF MARCH 31, 2024

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents [Note 8]	\$ 35,738	\$ 107,727	\$ 143,465
Member assessments receivable	1,369	--	1,369
Due from Seagarden Cost Center	--	536	536
Investments [Note 9]	55,029	1,044,226	1,099,255
Accrued interest receivable	--	24,981	24,981
Other receivable	150	--	150
Prepaid expenses	16,032	--	16,032
Due from/(to) fund	11,113	(11,113)	--
	<u>11,113</u>	<u>(11,113)</u>	<u>--</u>
Total Assets	<u>\$ 119,431</u>	<u>\$ 1,166,357</u>	<u>\$ 1,285,788</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 54,730	\$ --	\$ 54,730
Prepaid assessments	23,116	--	23,116
Activity deposits held	5,979	--	5,979
Income taxes payable	--	21,222	21,222
Contract liability [Note 4]	--	1,080,075	1,080,075
	<u>--</u>	<u>1,080,075</u>	<u>1,080,075</u>
Total Liabilities	83,825	1,101,297	1,185,122
FUND BALANCES	<u>35,606</u>	<u>65,060</u>	<u>100,666</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 119,431</u>	<u>\$ 1,166,357</u>	<u>\$ 1,285,788</u>

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

TALEGA GALLERY COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2024

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Member assessments [Notes 3 & 4]	\$ 831,936	\$ 79,688	\$ 911,624
Investment income	2,701	52,747	55,448
Other income	5,783	--	5,783
	<u>840,420</u>	<u>132,435</u>	<u>972,855</u>
Total Revenues			
EXPENSES			
Utilities:			
Electricity	48,762	--	48,762
Water	47,705	--	47,705
Gas	18,422	--	18,422
Refuse	961	--	961
Telephone	10,901	--	10,901
Maintenance:			
Landscape maintenance and supplies	299,292	--	299,292
Irrigation repairs	33,536	--	33,536
Patrol service	9,417	--	9,417
Lighting maintenance and supplies	4,050	--	4,050
Pool service, supplies and repairs	22,099	--	22,099
Janitorial service and supplies	28,438	--	28,438
Pest control	2,548	--	2,548
Gate and fence repairs	3,441	--	3,441
Other common area maintenance	51,419	--	51,419
Replacement fund [Note 11]	--	77,798	77,798
Administrative:			
Insurance	25,167	--	25,167
Management fees	36,389	--	36,389
Professional fees	8,105	1,890	9,995
Income taxes [Note 7]	--	18,880	18,880
Recreation staff and related expenses	208,327	--	208,327
Postage and printing expense	7,672	--	7,672
Other administrative expenses	21,052	951	22,003
	<u>887,703</u>	<u>99,519</u>	<u>987,222</u>
Total Expenses			
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	(47,283)	32,916	(14,367)
Beginning Fund Balances	<u>82,889</u>	<u>32,144</u>	<u>115,033</u>
Ending Fund Balances	<u>\$ 35,606</u>	<u>\$ 65,060</u>	<u>\$ 100,666</u>

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

TALEGA GALLERY COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2024

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash flows from operating activities			
Excess of revenues over/(under) expenses	\$ (47,283)	\$ 32,916	\$ (14,367)
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:			
Increase in member assessments receivable	(869)	--	(869)
Increase in due from Seagarden Cost Center	--	(532)	(532)
Increase in accrued interest receivable	--	(13,694)	(13,694)
Increase in other receivable	(150)	--	(150)
Decrease in prepaid expenses	12,528	--	12,528
Increase/(decrease) in accounts payable and accrued expenses	24,391	(3,835)	20,556
Decrease in accrued payroll and related expenses	(10,115)	--	(10,115)
Decrease in prepaid assessments	(6,540)	--	(6,540)
Increase in activity deposits held	3,858	--	3,858
Increase in income taxes payable	--	14,430	14,430
Decrease in contract liability	--	(11,684)	(11,684)
Change in due to/(from) fund	(8,999)	8,999	--
Net cash provided/(used) by operating activities	<u>(33,179)</u>	<u>26,600</u>	<u>(6,579)</u>
Cash flows from investing activities			
Acquisition of certificates of deposit	--	(1,000,000)	(1,000,000)
Acquisition of mutual funds	--	(44,058)	(44,058)
Maturity of certificates of deposit	--	950,000	950,000
Interest reinvested in mutual funds	(2,938)	(168)	(3,106)
Net cash used by investing activities	<u>(2,938)</u>	<u>(94,226)</u>	<u>(97,164)</u>
Net decrease in cash	(36,117)	(67,626)	(103,743)
Cash at beginning of year	<u>71,855</u>	<u>175,353</u>	<u>247,208</u>
Cash at end of year	<u><u>\$ 35,738</u></u>	<u><u>\$ 107,727</u></u>	<u><u>\$ 143,465</u></u>

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

TALEGA GALLERY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 1. ORGANIZATION

Talega Gallery Community Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in April 2001. The purpose of the Association is primarily to maintain, preserve and control the defined common areas of the Association. The Association, which is an age restricted community (55 and over), is comprised of four separate housing tracts and is part of the Talega Maintenance Corporation – a master planned community located in San Clemente, California. The Association consists of 283 residential units, of which 41 units within the Seagarden tract pay an additional “cost center” assessment.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Association 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 Association 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, 2024, there were no significant personal property additions.

Fund Accounting - The Association’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 and investment accounts to the Replacement Fund, and to pay the related income taxes out of the Replacement Fund.

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

Association members are subject to paying assessments to fund the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligation that satisfies the transaction amount, which is expected to be collected.

TALEGA GALLERY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 3. ASSESSMENTS AND ASSESSMENTS RECEIVABLE – (CONTINUED)

Under the revenue recognition standard of ASC 606 [Note 5], the Association (an entity) has a performance obligation to the unit/unit owners (customers). The Association's approved annual Operating Fund budget establishes the maintenance, management, and administrative services that the Association 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, 2024, the Association's monthly assessment was \$265 per unit. For the fiscal year ending March 31, 2025, the monthly assessment has been raised to \$305 per unit.

Assessments receivable at March 31, 2024 represent assessments and other fees due from owners. The Association'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 Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations which specifically pertains to Replacement Fund assessments. For the year ended March 31, 2024, the Association assessed and allocated \$68,004 to the Replacement Fund. The contract liability balance at the beginning of the year and end of the year was \$1,091,759 and \$1,080,075, respectively, resulting in an \$11,684 decrease.

NOTE 5. REVENUE RECOGNITION

The Financial Accounting Standards Board (FASB) issued guidance in the Accounting Standards Codification (ASC) Topic 606 Revenue from Contracts with Customers. FASB ASC 606 is a 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.

TALEGA GALLERY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 6. REPLACEMENT FUNDING PROGRAM

In accordance with the Association's governing documents, which require that funds be accumulated for future major repairs and replacements, the Association 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 Association's replacement funding program was conducted in January 2024 and recommends a contribution to the Replacement Fund of approximately \$196,761 (\$57.94 per unit per month) for the fiscal year ending March 31, 2025 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, 2024, the Association funded \$68,004 from assessments to the Replacement Fund. The 2024/2025 budget includes a provision for replacement funding of \$165,264 (\$48.66 per unit per month). The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Association 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 Association has the right, subject to the Association's governing documents, to pass special assessments, increase monthly assessments, or delay replacement until funds are available.

NOTE 7. INCOME TAXES

The Association may elect to file its federal income tax return as either a regular corporation [under Internal Revenue Code Section 277] or as a homeowners association [under Internal Revenue Code Section 528]. For the year ended March 31, 2024, the Association elected to file as a homeowners association, where generally the association is taxed only on income unrelated to membership dues and assessments [such as interest income less related expenses]. For California purposes, the Association also qualifies for tax exempt status as a homeowners association under California Revenue and Taxation Code Section 23701t and pays a tax of 8.84% on income not related to membership dues and assessments. Additionally, for tax filing purposes, the operations of the Seagarden Cost Center are combined with the Association. For the year ended March 31, 2024, the Association's share of the federal and California income tax expense was \$14,326 and \$4,554, respectively.

The Association 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 Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

TALEGA GALLERY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 7. INCOME TAXES – (CONTINUED)

The Association 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 Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association'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.

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, 2024, the Association maintained cash balances at the following institutions:

Operating Fund:

Sunwest Bank - checking	\$ 29,759
Sunwest Bank - checking (events)	<u>5,979</u>
Total Cash - Operating Fund	<u><u>\$ 35,738</u></u>

Replacement Fund:

Morgan Stanley Bank - savings	\$ 65,178
Morgan Stanley Private Bank - savings	41,613
Morgan Stanley - money funds	<u>936</u>
Total Cash - Replacement Fund	<u><u>\$ 107,727</u></u>

NOTE 9. INVESTMENTS

The Association's investments consist of open-end non-sweep treasury security money funds and certificates of deposit. 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, 2024, the Association's investments totaled \$1,099,255. The investments have remaining maturity dates ranging from two to twelve months and interest rates ranging from 5.10% to 5.50%.

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for income taxes amounted to \$5,724 for the year ended March 31, 2024. No interest was paid and there were no non-cash investing or financing transactions during the year.

TALEGA GALLERY COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024

NOTE 11. REPLACEMENT FUND EXPENDITURES

Replacement fund expenditures for the year ended March 31, 2024 were as follows:

Clubhouse	\$ 29,722
Recreation area	19,128
Irrigation	18,808
Gate repairs	4,400
Roof maintenance	4,250
Common area	<u>1,490</u>
Total	<u>\$ 77,798</u>

NOTE 12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 1, 2024, which is the date the financial statements were available to be issued.

TALEGA GALLERY COMMUNITY ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF MARCH 31, 2024
(UNAUDITED)

An independent reserve study was conducted in January 2024 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 a thirty-year average annual inflation rate of 3.0%. 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 3.0%.

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

Common Area Component	Estimated Remaining Useful Lives	Estimated Current Replacement Costs	2024/2025 Recommended Funding Requirement	Study's Recommended Fund Balance
Clubhouse - interior	1-14 years	\$ 587,922	\$ 40,273	\$ 305,264
Clubhouse - mechanical	0-13 years	176,950	11,986	120,128
Clubhouse - equipment	0-14 years	78,610	9,402	36,137
Clubhouse - exterior	0-26 years	226,987	10,077	180,880
Recreation areas	0-9 years	232,117	16,004	156,981
Grounds/parking/common	0-24 years	171,935	7,493	127,652
Landscape	0-13 years	345,796	64,583	236,290
Fences/walls/gates	1-27 years	600,216	31,212	357,777
Contingency	N/A years	--	5,731	45,633
	Total	\$ 2,420,533	\$ 196,761	\$ 1,566,742
The accumulated contract liability and Replacement Fund balance at 3/31/24:				\$ 1,145,135