



MEMORANDUM

DATE: April 18, 2022
TO: The Membership
FROM: Board of Directors
RE: 2021 Financial Review

Enclosed for your review are the 2021 year-end financial statements for Nepenthe Association.

California Civil Code requires that the Association engage a Certified Public Accountant to perform an audit or review of the financial statements for any fiscal year in which the gross income of the Association exceeds \$75,000.

Should you have any questions regarding the enclosed information, please feel free to contact me at 916.929.8380 or Bettsi.Ledesma@FSResidential.com.

Sincerely,

Bettsi Ledesma, CMCA, AMS
General Manager

NEPENTHE ASSOCIATION

**FINANCIAL STATEMENTS
AND INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

YEARS ENDED DECEMBER 31, 2021 AND 2020

**LEVY, ERLANGER & COMPANY LLP
Certified Public Accountants
San Francisco, California**

NEPENTHE ASSOCIATION

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YEARS ENDED DECEMBER 31, 2021 AND 2020**

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LEVY, ERLANGER & COMPANY LLP
Certified Public Accountants

290 King Street, Suite 12
San Francisco, CA 94107

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board Of Directors
Nepenthe Association
Sacramento, California

We have reviewed the accompanying financial statements of **Nepenthe Association** (the Association) which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in fund balances and cash flows, for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of **Nepenthe Association** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Future Major Repairs and Replacements

As further discussed in the notes to the financial statements, the Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting replacement reserve funding plan is a function of the completeness of the major component list and the accuracy of the estimated quantity, useful and remaining lives, and replacement costs of those components.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until sufficient funds are available.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information is the responsibility of management. We have not audited, reviewed or compiled the required supplementary information, and we do not express an opinion, a conclusion, nor provide any assurance on it.

A handwritten signature in black ink that reads "Lee Elmer & Company LLP". The signature is written in a cursive, flowing style.

March 24, 2022

NEPENTHE ASSOCIATION

BALANCE SHEETS DECEMBER 31, 2021 AND 2020

	<u>2021</u>			<u>2020</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 229,405	\$ 5,633,020	\$ 5,862,425	\$ 4,253,393
Investment in certificates of deposit (Note 2)		3,758,790	3,758,790	3,216,001
Investment in government securities (Note 2)		1,048,668	1,048,668	2,563,714
Assessments receivable, less allowance for doubtful accounts of \$51,000 and \$35,000, respectively (Note 2)	16,955		16,955	26,774
Other receivable	900		900	1,002
Interest receivable				8,841
Prepaid insurance	383,381		383,381	315,508
Prepaid income taxes	2,855	8,563	11,418	2,964
Prepaid other expense	2,519		2,519	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 636,015</u>	<u>\$ 10,449,041</u>	<u>\$ 11,085,056</u>	<u>\$ 10,388,197</u>
LIABILITIES				
Accounts payable	\$ 18,545	\$ 182,066	\$ 200,611	\$ 84,565
Assessments paid in advance	78,554		78,554	64,724
Income taxes payable				18,812
Due to (due from) other fund	170,766	(170,766)		
Contract liabilities - replacement reserve assessments paid in advance (Notes 2 and 4)		10,437,741	10,437,741	9,882,203
Future major repairs and replacements (Note 3)	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>267,865</u>	<u>10,449,041</u>	<u>10,716,906</u>	<u>10,050,304</u>
COMMITMENTS (NOTE 8)	-	-	-	-
FUND BALANCE (DEFICIT)	<u>368,150</u>	<u>-</u>	<u>368,150</u>	<u>337,893</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 636,015</u>	<u>\$ 10,449,041</u>	<u>\$ 11,085,056</u>	<u>\$ 10,388,197</u>

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020
	Operations Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Assessments (Notes 2 and 4)	\$ 1,607,160	\$ 1,590,238	\$ 3,197,398	\$ 2,305,589
Bad debt recovery (expense)	(16,000)		(16,000)	(26,470)
Interest income (Note 2)	186	74,549	74,735	127,581
Clubhouse rental income	1,685		1,685	825
AT&T marketing commissions (Note 6)	21,381		21,381	12,423
Delinquency monitoring income	9,955		9,955	7,948
Flood insurance assessments (Note 7)	19,350		19,350	20,358
Late charges and other income	17,102	35,623	52,725	10,353
Total revenues	1,660,819	1,700,410	3,361,229	2,458,607
EXPENSES				
<u>Administration</u>				
Income tax provision (Note 2)	6,009	18,027	24,036	35,418
Insurance	436,024		436,024	325,966
Legal and accounting	23,948		23,948	38,003
Management	91,800		91,800	90,000
Office, printing and postage	57,227		57,227	66,105
Reserve study		6,600	6,600	
	615,008	24,627	639,635	555,492
<u>Maintenance and operations</u>				
Gutters and downspouts	59,560	-	59,560	49,295
Janitorial services	22,110		22,110	29,296
Landscape maintenance	504,330		504,330	425,548
Contract labor	250,618		250,618	274,086
Pest control	1,212		1,212	2,400
Pool and spa maintenance	26,360		26,360	25,237
Security services	27,966		27,966	35,853
Other maintenance and operations	50,816		50,816	60,798
	942,972	-	942,972	902,513

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021			2020
	Operations Fund	Replacement Fund	Total Funds	Total Funds
EXPENSES (CONTINUED)				
<u>Utilities</u>				
Garbage collection	\$ 7,579	\$ -	\$ 7,579	\$ 6,025
Gas and electricity	37,246		37,246	34,454
Internet access	13,254		13,254	5,470
Telephone	2,377		2,377	4,279
Water and sewer	46,990		46,990	55,571
	<u>107,446</u>	<u>-</u>	<u>107,446</u>	<u>105,799</u>
<u>Major repairs and replacements</u>				
Clubhouse	-	71,899	71,899	78,389
Fences and gates		150,485	150,485	66,344
Furnishings and equipment		12,933	12,933	
Landscaping, trees and irrigation		1,086,827	1,086,827	497,981
Lighting and electrical systems		20,922	20,922	24,069
Paving and concrete		100,069	100,069	11,755
Pool and spa		58,315	58,315	9,895
Roofs		53,084	53,084	140,714
Sewer and drainage		82,608	82,608	51,034
Structural repairs		38,251	38,251	
Other major repairs and replacements		390	390	26,245
	<u>-</u>	<u>1,675,783</u>	<u>1,675,783</u>	<u>906,426</u>
Total expenses	<u>1,665,426</u>	<u>1,700,410</u>	<u>3,365,836</u>	<u>2,470,230</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(4,607)	-	(4,607)	(11,623)
BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS	34,864	-	34,864	(31,465)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR (NOTE 5)	<u>337,893</u>	<u>-</u>	<u>337,893</u>	<u>380,981</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 368,150</u>	<u>\$ -</u>	<u>\$ 368,150</u>	<u>\$ 337,893</u>

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021		2020
	Operations Fund	Replacement Fund	Total Funds
OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$ (4,607)	\$ -	\$ (4,607)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Bad debt (recovery) expense	16,000	-	16,000
Decrease (increase) in assets:			
Assessments receivable	(6,181)		(6,181)
Interest receivable		8,841	8,841
Other receivable	102		102
Prepaid insurance	(67,873)		(67,873)
Prepaid income taxes	(2,470)	(5,984)	(8,454)
Prepaid other expenses	(2,519)		(2,519)
Increase (decrease) in liabilities:			
Accounts payable	(22,547)	138,593	116,046
Assessments paid in advance	13,830		13,830
Income taxes payable	(2,446)	(16,366)	(18,812)
Contract liabilities - replacement reserve assessments paid in advance		555,538	555,538
Due to (due from) other fund	87	(87)	
Total adjustments	(74,017)	680,535	606,518
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(78,624)	680,535	601,911
INVESTING ACTIVITIES			
Net (purchase) sale of certificates of deposit	-	(542,789)	(542,789)
Net (purchase) sale of government securities		1,515,046	1,515,046
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	-	972,257	972,257

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>			<u>2020</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (78,624)	\$ 1,652,792	\$ 1,574,168	\$ (398,401)
BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS	34,864	-	34,864	(31,465)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>273,165</u>	<u>3,980,228</u>	<u>4,253,393</u>	<u>4,683,259</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 229,405</u>	<u>\$ 5,633,020</u>	<u>\$ 5,862,425</u>	<u>\$ 4,253,393</u>
<u>Supplemental Disclosures</u>				
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 10,925</u>	<u>\$ 40,377</u>	<u>\$ 51,302</u>	<u>\$ 59,498</u>

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

1. THE ASSOCIATION

Nepenthe Association (the Association) is a common interest development located in Sacramento, California which consists of 590 residential units and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in May 1972 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assessments. Association members are subject to monthly 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.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. 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 estimate of allowance for doubtful accounts, if any, is based, generally on amounts past due greater than 90 to 120 days.

Basis of presentation. The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents. For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents are classified with cash in the balance sheet.

Concentrations of credit risk. Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Association maintains its financial instruments with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash, cash equivalents and investments in excess of federal deposit insurance (FDIC) coverage limits as of December 31, 2021 totaled approximately \$1,089,000.

Contract liabilities - replacement reserve assessments paid in advance. The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability - replacement reserve assessments paid in advance is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

Fund accounting. The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the 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 two funds established according to their nature and purpose. The operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income, less related nonmembership expenses, subject to federal and California income taxes includes interest earned on cash and cash equivalents, and investments.

For federal purposes, the Association may elect to be taxed as either a regular corporation or as a homeowners association. In the former instance, it is taxed at a flat 21% rate on net nonmember income; in the latter case it is taxed at a flat 30% rate on net nonexempt function income (which is generally similar to net nonmember income). California income tax approximates 9% of net nonmember income.

The Association's tax filings are subject to audit by various taxing authorities: federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service and California income tax returns for the previous four years remain open to examination by the Franchise Tax Board. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Interest earned on operations and replacement funds, net of related income taxes, is retained in said respective funds. With the implementation of FASB ASC 606 new accounting guidance, reported replacement reserve interest income may be less than earned.

Investments consist of federally-insured certificates of deposit and U.S. government securities. Investments are presented at cost which approximates market value.

	<u>Cost</u>	<u>Market value</u>	<u>Unrealized gains (losses)</u>
2021			
Certificates of deposit	\$ 3,758,790	\$ 3,946,143	\$ 187,353
U.S. government securities	1,048,668	1,055,447	6,779
Total of 2020	<u>\$ 4,807,458</u>	<u>\$ 5,001,590</u>	<u>\$ 194,132</u>
2020			
Certificates of deposit	\$ 3,216,001	\$ 3,385,032	\$ 169,031
U.S. government securities	2,563,714	2,591,229	27,515
Total of 2019	<u>\$ 5,779,715</u>	<u>\$ 5,976,261</u>	<u>\$ 196,546</u>

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Membership in the Association is mandatory by virtue of unit ownership.

Real and personal common property acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board Of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, and California state law (Civil Code Section 5300), require that the Board Of Directors provide for the repair and replacement of Association common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of day-to-day operating expenses.

The Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting reserve funding plan is a function of the completeness of the major component list, the accuracy of the estimated quantity, useful and remaining lives and current replacement costs of those components, and the reasonableness of significant funding assumptions, including but not limited to the projected major component cost increases (aka inflation) and interest earning rate(s) on replacement fund cash balances.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material.

Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until funds are available.

Additional information about future major repairs and replacements may be found in the annually-distributed pro forma operating budget and related assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 5300).

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) has issued new guidance that created Accounting Standards Codification (ASC) Topic 606. This new guidance supercedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRAs), Revenue Recognition, and now requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services (i.e. the accumulation of unspent replacement reserve cash and investments from assessment payments over time which are eventually to be used for common area major repairs and replacements).

The Association has 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 beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenues and contract liabilities - replacement reserve assessments paid in advance.

<u>2021 Assessment Revenues Reconciliation</u>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<u>Total Funds</u>
Assessment revenues <u>per budget</u>	\$ 1,607,160	\$ 2,180,640	\$ 3,787,800
Effects of applying <u>new guidance</u>			
Reclassify <u>interfund transfers</u>	-	(34,864)	(34,864)
Adjust <u>revenues to equal expenses</u>	-	(555,538)	(555,538)
Total effects of new guidance	-	(590,402)	(590,402)
Assessment revenues <u>per financial statements</u>	<u>\$ 1,607,160</u>	<u>\$ 1,590,238</u>	<u>\$ 3,197,398</u>

<u>2020 Assessment Revenues Reconciliation</u>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<u>Total Funds</u>
Assessment revenues <u>per budget</u>	\$ 1,495,044	\$ 2,179,476	\$ 3,674,520
Effects of applying <u>new guidance</u>			
Reclassify <u>interfund transfers</u>	-	31,465	31,465
Adjust <u>revenues to equal expenses</u>	-	(1,400,396)	(1,400,396)
Total effects of new guidance	-	(1,368,931)	(1,368,931)
Assessment revenues <u>per financial statements</u>	<u>\$ 1,495,044</u>	<u>\$ 810,545</u>	<u>\$ 2,305,589</u>

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

5. PRIOR PERIOD ADJUSTMENT

The balance sheet at the beginning of the year ended December 31, 2020 has been restated to adjust fund balance for adoption of FASB ASC 606 at that date. Accordingly, the beginning fund balance has been restated as follows:

	Year Ended <u>12-31-20</u>
FUND BALANCE (DEFICIT) BEGINNING OF YEAR	
As previously reported	\$ 387,233
Adjustment for adoption of FASB ASC 606	<u>(6,252)</u>
As restated	<u>\$ 380,981</u>

6. AT&T MARKETING COMMISSIONS

In 2013 the Association entered into an agreement with AT&T Services, Inc. (AT&T) to provide broadband communication services to the project for a period of five years. Under the terms of the agreement, AT&T pays monthly marketing commissions to the Association based on monthly recurring charges for the subscribed AT&T services in the Association. At the end of the term, the agreement was renewed automatically on a month to month basis. The Association pays a quarterly commission to a consultant for contract negotiations. The Association received AT&T marketing commissions of \$21,381 (net of \$3,691 consulting fee) and \$12,423 (net of \$4,810 consulting fee) for the years ended December 31, 2021 and 2020, respectively.

See independent accountant's review report.

NEPENTHE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2021 AND 2020

7. FLOOD INSURANCE ASSESSMENTS

In 2015 the National Flood Insurance Program (NFIP) began assessing a surcharge on all flood policies as mandated by congressional reforms. The Association purchases flood policies for every home in the Association. Under the new pricing structure, every policy is subject to a \$25 surcharge, and non-owner occupied units are subject to a \$250 surcharge. The Association pays \$25 surcharges on behalf of all the units. The non-owner occupied units are responsible for the remaining \$225 surcharges. The Association collected flood insurance assessments \$19,350 and \$20,358 for the years ended December 31, 2021 and 2020, respectively.

8. COMMITMENTS

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

9. COVID-19

In December 2019 a novel strain of coronavirus surfaced and has spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization in January 2020. The effect of this virus on the financial position and/or results of operations of the Association is unknown at this time.

10. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 24, 2022, the date that the financial statements were available to be issued.

See independent accountant's review report.

NEPENTHE ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2021 (UNAUDITED)

The following information on common area major components was compiled by Browning Reserve Group of Sacramento, California **as of November 2021** and has served as the basis for the current estimates of replacement reserve funding:

<i>Reserve Component</i>	<i>Current Replacement Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021 Fully Funded Balance</i>
01000 - Paving	2,023,444	1-15	0-15	816,081
02000 - Concrete	203,636	1-5	0-4	195,162
03000 - Painting: Exterior	1,752,936	1-16	0-9	1,434,855
03500 - Painting: Interior	26,577	4-10	1-3	18,799
04000 - Structural Repairs	7,286,851	1-30	0-29	2,412,559
05000 - Roofing	22,329,596	1-30	0-28	5,703,059
08000 - Rehab	431,789	10-30	1-23	206,602
12000 - Pool	555,015	1-30	0-23	216,499
13000 - Spa	38,180	5-8	0-5	22,393
14000 - Recreation	35,310	5-20	1-7	27,671
17000 - Tennis Court	336,490	2-21	0-19	140,060
18000 - Landscaping	1,597,708	1-40	0-4	1,557,858
19000 - Fencing	751,452	1-25	0-18	574,332
20000 - Lighting	62,583	1-20	0-12	26,073
21000 - Signage	110,895	15-25	3-23	44,148
22000 - Office Equipment	1,000	4-4	1-1	750
23000 - Mechanical Equipment	105,565	12-15	1-3	97,123
24000 - Furnishings	15,540	10-15	1-8	10,268
24500 - Audio / Visual	35,330	10-10	7-7	10,599
24600 - Safety / Access	64,457	10-10	3-8	35,177
25000 - Flooring	47,410	10-20	1-13	30,616
26000 - Outdoor Equipment	750	10-10	5-5	375
27000 - Appliances	24,970	10-20	1-13	14,608
30000 - Miscellaneous	50,150	1-1	0-0	50,150
31000 - Reserve Study	6,600	1-3	0-0	6,600
32000 - Undesignated	8,000	1-1	0-0	8,000
Totals	\$37,902,233			\$13,660,419
Estimated Ending Balance				\$9,315,405
Percent Funded				68.2%

See independent accountant's review report and accompanying notes.

NEPENTHE ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2021
(UNAUDITED)**

The Association has conducted a study to estimate the useful and remaining lives and current replacement costs of common property major components. Funding requirements consider an estimated **before-tax interest rate** of **1-1/20%** on replacement fund cash balances and an annual **inflation rate** of **2-1/2%** on major component replacement costs. The replacement fund **cash** and investment balances at December 31, 2021 totaled **\$10,440,478**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$13,660,000**. The portion of **2022** regular **assessments** budgeted to be allocated to the replacement fund totals **\$2,251,440**.

See independent accountant's review report and accompanying notes.