

# MEMORANDUM

**DATE:** April 7, 2025  
**TO:** The Membership  
**FROM:** Board of Directors  
**RE:** 2024 Financial Review

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Enclosed for your review are the following documents:

- Year-end financial statements for Nepenthe Association
- Annual Homeowner Disclosure Form

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.

A list of the names and addresses of the current members is located at the Association's managing office.

Should you have any questions regarding the enclosed information, please feel free to contact Nicole Marks of FirstService Residential at 916-929-8380 or [Nicole.Marks@fsresidential.com](mailto:Nicole.Marks@fsresidential.com).

Sincerely,  
Nicole Marks  
General Manager



## Annual Homeowner Disclosure

Civil Code §4041 requires owners, on an annual basis, to provide notice to their association of four pieces of information:

- 1) Mailing address to receive notices from the Association (if different than Property Address) and/or valid email address (if any)
- 2) Secondary address (if any) to receive notices from the Association
- 3) Name and address of Legal Representative (if any), including any person with power of attorney or other person who can be contacted in the event of the owner's extended absence
- 4) Status of Property (Owner-Occupied, Rented, Vacant or Undeveloped Land)

Please provide the information listed above by visiting your association's Community Website at <https://nepenthehomeowners.connectresident.com/> under the "My Account" section.

Per Civil Code Section 5220, you may opt out of the sharing of your name, property address, mailing address, and email address from the membership list request process. Please update your Homeowner List preferences under the "My Account" section once you are logged in to your association's Community Website.

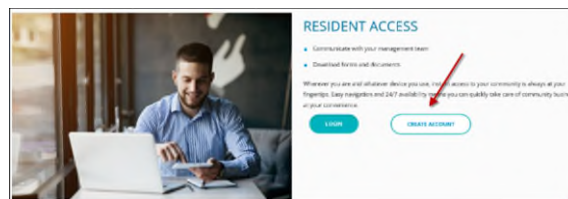
Your responses to the questions above will dictate your proper receipt of important Association information. Please note that if the information above is not provided, the last address provided in writing by the owner, or if none, the property address shall be deemed the address to which notices are to be delivered. The Association thanks you for your cooperation as they seek to comply with this legislation.

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### Registering for the Community Website

If you have not registered for your community's website, please complete the following steps:

- Navigate to <https://nepenthehomeowners.connectresident.com/>
- Click CREATE ACCOUNT on the landing page of the webpage or "Create Account" via the Connect Resident app



- A verification code will be sent via email, which will expire within **10 minutes**; this 2-factor authentication method ensures the highest levels in security!
- After verifying your email, create a secure password
- Login using these newly created credentials
- Read the Terms and Conditions and select the check box if you agree
- Complete the registration by either entering the Property Address or Account Number (listed as "Customer ID" on the Assessment Statement)
- Once you are registered, the Community Website will allow you to opt-in to receive association documents electronically by customizing your communication preferences and opt-out of the association membership list, if preferred, through "My Account" settings.

**Need Assistance?** Contact the Customer Care Center for fast, live support 24/7 at 1-800-428-5588.

**NEPENTHE ASSOCIATION**

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

**YEARS ENDED DECEMBER 31, 2024 AND 2023**

**LEVY, ERLANGER & COMPANY LLP  
San Francisco, California**

**NEPENTHE ASSOCIATION**

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## LEVY, ERLANGER & COMPANY LLP

100 Montgomery Street, Suite 715  
San Francisco, CA 94104

### 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, 2024 and 2023, 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.

  
February 26, 2025

# NEPENTHE ASSOCIATION

## BALANCE SHEETS DECEMBER 31, 2024 AND 2023

	2024		2023	
	Operations Fund	Replacement Fund	Total Funds	Total Funds
<b>ASSETS</b>				
Cash and cash equivalents (Note 2)	\$ 89,341	\$ 283,293	\$ 372,634	\$ 1,946,496
Investment in certificates of deposit (Note 2)		700,000	700,000	1,600,000
Investment in US Treasury securities (Note 2)		7,954,457	7,954,457	7,545,696
Assessments receivable, less allowance for doubtful accounts of \$98,000 and \$43,000, respectively (Note 2)	43,665		43,665	26,672
Other receivable				900
Interest receivable		16,935	16,935	11,484
Prepaid insurance	528,588		528,588	
Prepaid income taxes	749	9,951	10,700	
	<u>662,343</u>	<u>8,964,636</u>	<u>9,626,979</u>	<u>11,131,248</u>
Total assets	<u>\$ 662,343</u>	<u>\$ 8,964,636</u>	<u>\$ 9,626,979</u>	<u>\$ 11,131,248</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 74,500	\$ 365,288	\$ 439,788	\$ 147,322
Assessments paid in advance	50,221		50,221	52,650
Insurance payable				7,644
Income taxes payable	938	12,456	13,394	55,775
Due to (due from) other fund	342,043	(342,043)		
Contract liabilities - replacement reserve assessments paid in advance (Notes 2 and 4)		8,928,935	8,928,935	10,752,578
Future major repairs and replacements (Note 3)	-	-	-	-
	<u>467,702</u>	<u>8,964,636</u>	<u>9,432,338</u>	<u>11,015,969</u>
Total liabilities	<u>467,702</u>	<u>8,964,636</u>	<u>9,432,338</u>	<u>11,015,969</u>
<b>COMMITMENTS (NOTE 8)</b>				
	-	-	-	-
<b>FUND BALANCE (DEFICIT)</b>				
	<u>194,641</u>	<u>-</u>	<u>194,641</u>	<u>115,279</u>
Total liabilities and fund balance	<u>\$ 662,343</u>	<u>\$ 8,964,636</u>	<u>\$ 9,626,979</u>	<u>\$ 11,131,248</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, 2024 AND 2023**

	2024			2023
	Operations Fund	Replacement Fund	Total Funds	Total Funds
<b>REVENUES</b>				
Assessments (Notes 2 and 4)	\$ 2,018,832	\$ 4,026,246	\$ 6,045,078	\$ 4,586,532
Bad debt recovery (expense)	(55,000)		(55,000)	(16,000)
Interest income (Note 2)	2,868	450,164	453,032	395,671
Clubhouse rental income	8,640		8,640	6,540
AT&T marketing commissions (Note 6)	24,542		24,542	28,710
Insurance claim settlements	82,234		82,234	731,156
Delinquency monitoring income	16,250		16,250	15,744
Flood insurance assessments (Note 7)	16,877		16,877	18,240
Late charges and other income	10,604	1,215	11,819	10,790
Total revenues	<u>2,125,847</u>	<u>4,477,625</u>	<u>6,603,472</u>	<u>5,777,383</u>
<b>EXPENSES</b>				
<u>Administration</u>				
Income tax provision (Note 2)	7,554	100,360	107,914	105,175
Insurance	678,309		678,309	497,931
Legal and accounting	37,379		37,379	49,196
Management	93,600		93,600	93,600
Office, printing and postage	96,077		96,077	73,965
Reserve study		6,600	6,600	1,000
	<u>912,919</u>	<u>106,960</u>	<u>1,019,879</u>	<u>820,867</u>
<u>Maintenance and operations</u>				
Contract labor	296,401	-	296,401	326,542
Gutters and downspouts	113,976		113,976	77,922
Insurance claim deductible	25,000		25,000	
Janitorial services	38,058		38,058	30,792
Landscape maintenance	589,560		589,560	561,804
Pest control	4,505		4,505	4,957
Pool and spa maintenance	48,005		48,005	45,185
Security services	8,262		8,262	5,857
Other maintenance and operations	17,286		17,286	16,976
	<u>1,141,053</u>	<u>-</u>	<u>1,141,053</u>	<u>1,070,035</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, 2024 AND 2023**

	2024		2023	
	Operations Fund	Replacement Fund	Total Funds	Total Funds
<b>EXPENSES (CONTINUED)</b>				
<u>Utilities</u>				
Garbage collection	\$ 8,987	\$ -	\$ 8,987	\$ 8,227
Gas and electricity	70,910		70,910	58,424
Internet access	8,533		8,533	7,231
Telephone	1,971		1,971	2,262
Water and sewer	70,277		70,277	58,713
	<u>160,678</u>	<u>-</u>	<u>160,678</u>	<u>134,857</u>
<u>Major repairs and replacements</u>				
Clubhouse	-	45,353	45,353	802
Fences and gates		941,415	941,415	501,770
Landscaping, trees and irrigation		1,185,145	1,185,145	1,588,972
Lighting and electrical systems		10,138	10,138	30,508
Painting and waterproofing		272,888	272,888	172,716
Paving and concrete		230,354	230,354	99,897
Pool and spa		14,091	14,091	63,602
Roofs		50,937	50,937	31,324
Sewer and drainage		9,935	9,935	28,695
Structural repairs		1,599,236	1,599,236	1,297,007
Other major repairs and replacements		11,173	11,173	196
	<u>-</u>	<u>4,370,665</u>	<u>4,370,665</u>	<u>3,815,489</u>
Total expenses	<u>2,214,650</u>	<u>4,477,625</u>	<u>6,692,275</u>	<u>5,841,248</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(88,803)	-	(88,803)	(63,865)
<b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	168,165	-	168,165	(76,006)
<b>FUND BALANCE (DEFICIT), BEGINNING OF YEAR</b>	<u>115,279</u>	<u>-</u>	<u>115,279</u>	<u>255,150</u>
<b>FUND BALANCE (DEFICIT), END OF YEAR</b>	<u>\$ 194,641</u>	<u>\$ -</u>	<u>\$ 194,641</u>	<u>\$ 115,279</u>

See independent accountant's review report and accompanying notes.

## NEPENTHE ASSOCIATION

### STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>		<u>2023</u>	
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>	<u>Total Funds</u>
<b>OPERATING ACTIVITIES</b>				
Excess (deficiency) of revenues over expenses	\$ (88,803)	\$ -	\$ (88,803)	\$ (63,865)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Bad debt (recovery) expense	55,000	-	55,000	16,000
Decrease (increase) in assets:				
Assessments receivable	(71,993)		(71,993)	(6,695)
Interest receivable		(5,451)	(5,451)	(11,484)
Other receivable	900		900	
Prepaid insurance	(528,588)		(528,588)	343,101
Prepaid income taxes	(749)	(9,951)	(10,700)	
Increase (decrease) in liabilities:				
Accounts payable	18,263	274,203	292,466	(57,274)
Insurance payable	(7,644)		(7,644)	7,644
Assessments paid in advance	(2,429)		(2,429)	2,344
Income taxes payable	(4,082)	(38,299)	(42,381)	43,417
Contract liabilities - replacement reserve assessments paid in advance		(1,823,643)	(1,823,643)	(460,766)
Due to (due from) other fund	357,543	(357,543)		
Total adjustments	(183,779)	(1,960,684)	(2,144,463)	(123,713)
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<u>(272,582)</u>	<u>(1,960,684)</u>	<u>(2,233,266)</u>	<u>(187,578)</u>
<b>INVESTING ACTIVITIES</b>				
Net (purchase) sale of certificates of deposit	-	900,000	900,000	688,165
Net (purchase) sale of US Treasury securities		(408,761)	(408,761)	(2,276,890)
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>-</u>	<u>491,239</u>	<u>491,239</u>	<u>(1,588,725)</u>

See independent accountant's review report and accompanying notes.

## NEPENTHE ASSOCIATION

### STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>		<u>2023</u>
	<u>Operations Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (272,582)	\$ (1,469,445)	\$ (1,742,027)
<b>BOARD-APPROVED INTERFUND RECLASSIFICATIONS AND TRANSFERS</b>	168,165	-	(76,006)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>193,758</u>	<u>1,752,738</u>	<u>3,798,805</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 89,341</u>	<u>\$ 283,293</u>	<u>\$ 1,946,496</u>
<u>Supplemental Disclosures</u>			
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 12,385</u>	<u>\$ 148,610</u>	<u>\$ 61,758</u>

See independent accountant's review report and accompanying notes.

## NEPENTHE ASSOCIATION

### NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2024 AND 2023

#### 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. The Association's policy is to account for reserve fund expenditures using reserve fund assessments before reserve fund interest income.

**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, 2024 AND 2023

#### 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, 2024 totaled approximately \$121,000.

**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, 2024 AND 2023

#### 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 accounting guidance, reported replacement reserve interest income may be less than earned.

**Investments** consist of federally-insured certificates of deposit and US Treasury securities. Investments are presented at cost which approximates market value.

	<u>Cost</u>	<u>Market value</u>	<u>Unrealized gains (losses)</u>
<b>2023</b>			
Certificates of deposit	\$ 1,600,000	\$ 1,593,093	\$ (6,907)
US Treasury securities	7,545,696	7,589,149	43,453
Total of 2023	<u>\$ 9,145,696</u>	<u>\$ 9,182,242</u>	<u>\$ 36,546</u>
<b>2024</b>			
Certificates of deposit	\$ 700,000	\$ 698,738	\$ (1,262)
US Treasury securities	7,954,457	8,006,259	51,802
Total of 2024	<u>\$ 8,654,457</u>	<u>\$ 8,704,997</u>	<u>\$ 50,540</u>

See independent accountant's review report.

## **NEPENTHE ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2024 AND 2023**

#### **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, 2024 AND 2023

#### 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, 2024 AND 2023

#### 4. FASB ASC 606 ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) has issued guidance that created Accounting Standards Codification (ASC) Topic 606. This 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 guidance as of January 1, 2019. The effect to the Association's income statement from adoption of this guidance is as follows:

<b><u>2023 Assessment Revenues Reconciliation</u></b>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<b><u>Total Funds</u></b>
Assessment revenues <b><u>per budget</u></b>	\$ 1,798,308	\$ 2,251,452	\$ 4,049,760
Effects of applying <b><u>guidance</u></b>			
Reclassify <b><u>interfund transfers</u></b>	-	76,006	76,006
Adjust <b><u>revenues to equal expenses</u></b>	-	460,766	460,766
Total effects of guidance	-	536,772	536,772
Assessment revenues <b><u>per financial statements</u></b>	<u>\$ 1,798,308</u>	<u>\$ 2,788,224</u>	<u>\$ 4,586,532</u>
<b><u>2024 Assessment Revenues Reconciliation</u></b>	Operations <u>Fund</u>	Replacement <u>Fund</u>	<b><u>Total Funds</u></b>
Assessment revenues <b><u>per budget</u></b>	\$ 2,018,832	\$ 2,370,768	\$ 4,389,600
Effects of applying <b><u>guidance</u></b>			
Reclassify <b><u>interfund transfers</u></b>	-	(168,165)	(168,165)
Adjust <b><u>revenues to equal expenses</u></b>	-	1,823,643	1,823,643
Total effects of guidance	-	1,655,478	1,655,478
Assessment revenues <b><u>per financial statements</u></b>	<u>\$ 2,018,832</u>	<u>\$ 4,026,246</u>	<u>\$ 6,045,078</u>

#### 5. INTERFUND ACCOUNTS

The interfund accounts represent the amount one fund owes another fund. Various scenarios may cause this situation which include, but are not limited to, one fund paying the expenses of another fund, one fund borrowing from another fund, or the operating fund not paying the full annual budgeted contribution amount to the replacement fund.

See independent accountant's review report.

## **NEPENTHE ASSOCIATION**

### **NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2024 AND 2023**

#### **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 \$24,542 (before \$6,136 of consulting fees) and \$28,710 (before \$7,178 of consulting fees) for the years ended December 31, 2024 and 2023, respectively.

#### **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 \$16,877 and \$18,240 for the years ended December 31, 2024 and 2023, 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. DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 26, 2025, 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, 2024 (UNAUDITED)

The following information on common area major components was compiled by Browning Reserve Group of Sacramento, California as of **November 2024** 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>2024 Fully Funded Balance</i>
<b>01000 - Paving</b>	<b>2,811,977</b>	<b>1-15</b>	<b>0-12</b>	<b>1,349,727</b>
<b>02000 - Concrete</b>	<b>386,593</b>	<b>1-5</b>	<b>0-2</b>	<b>274,885</b>
<b>03000 - Painting: Exterior</b>	<b>1,783,902</b>	<b>1-12</b>	<b>0-8</b>	<b>1,075,450</b>
<b>03500 - Painting: Interior</b>	<b>34,396</b>	<b>8-10</b>	<b>2-3</b>	<b>24,327</b>
<b>04000 - Structural Repairs</b>	<b>14,164,375</b>	<b>1-30</b>	<b>0-26</b>	<b>4,291,749</b>
<b>05000 - Roofing</b>	<b>27,690,040</b>	<b>1-30</b>	<b>0-25</b>	<b>9,881,198</b>
<b>08000 - Rehab</b>	<b>381,042</b>	<b>10-30</b>	<b>3-20</b>	<b>188,269</b>
<b>12000 - Pool</b>	<b>715,124</b>	<b>1-30</b>	<b>0-20</b>	<b>267,704</b>
<b>13000 - Spa</b>	<b>56,569</b>	<b>1-8</b>	<b>0-3</b>	<b>36,767</b>
<b>14000 - Recreation</b>	<b>41,261</b>	<b>5-20</b>	<b>2-4</b>	<b>29,034</b>
<b>17000 - Tennis Court</b>	<b>208,021</b>	<b>8-30</b>	<b>2-28</b>	<b>51,718</b>
<b>18000 - Landscaping</b>	<b>3,068,536</b>	<b>1-12</b>	<b>0-9</b>	<b>1,826,921</b>
<b>19000 - Fencing</b>	<b>3,039,621</b>	<b>1-25</b>	<b>0-15</b>	<b>2,244,327</b>
<b>20000 - Lighting</b>	<b>72,794</b>	<b>1-20</b>	<b>0-9</b>	<b>44,126</b>
<b>21000 - Signage</b>	<b>186,799</b>	<b>1-25</b>	<b>0-20</b>	<b>92,376</b>
<b>22000 - Office Equipment</b>	<b>5,200</b>	<b>4-8</b>	<b>2-4</b>	<b>2,600</b>
<b>23000 - Mechanical Equipment</b>	<b>196,756</b>	<b>12-30</b>	<b>0-1</b>	<b>187,634</b>
<b>24000 - Furnishings</b>	<b>16,618</b>	<b>10-15</b>	<b>2-5</b>	<b>12,167</b>
<b>24500 - Audio / Visual</b>	<b>45,000</b>	<b>10-10</b>	<b>6-6</b>	<b>18,000</b>
<b>24600 - Safety / Access</b>	<b>79,236</b>	<b>10-10</b>	<b>2-5</b>	<b>56,418</b>
<b>25000 - Flooring</b>	<b>56,113</b>	<b>10-20</b>	<b>3-10</b>	<b>24,474</b>
<b>26000 - Outdoor Equipment</b>	<b>1,100</b>	<b>10-10</b>	<b>2-2</b>	<b>880</b>
<b>27000 - Appliances</b>	<b>31,411</b>	<b>10-20</b>	<b>3-10</b>	<b>16,667</b>
<b>30000 - Miscellaneous</b>	<b>56,674</b>	<b>1-1</b>	<b>0-0</b>	<b>56,674</b>
<b>31000 - Reserve Study</b>	<b>6,600</b>	<b>3-3</b>	<b>0-0</b>	<b>6,600</b>
<b>32000 - Undesignated</b>	<b>9,010</b>	<b>1-1</b>	<b>0-0</b>	<b>9,010</b>
Totals	<b>\$55,144,771</b>			<b>\$22,069,702</b>
				<b>\$9,063,656</b>
				<b>41.1%</b>

See independent accountant's review report and accompanying notes.

**NEPENTHE ASSOCIATION**

**SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
DECEMBER 31, 2024  
(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 **2-1/10%** 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, 2024 totaled **\$8,937,750**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$22,070,000**. The portion of **2025** regular **assessments** budgeted to be allocated to the replacement fund totals **\$2,081,760**.

See independent accountant's review report and accompanying notes.