Kerrigan Ranch II Community Association

DATE: October 2024

TO: Kerrigan Ranch II Community Association

FROM: Nancy Blasco, CCAM – StoneKastle Community Management

Dear Homeowner:

In accordance with California Civil Code Section 5305 a copy of the Annual Audit for the fiscal year end December 31, 2023, is available for viewing on the Kerrigan Ranch II Portal at https://engage.goenumerate.com. If you would like a hard copy, you may make your request at nancy@stonekastle.com This audit was prepared by an independent CPA firm, VanDerPol and Company, and has been accepted by the Board of Directors.

Please be advised, as a property owner, you have the right under California Civil Code Section 4950 to obtain copies of minutes of the Board of Directors meetings for a nominal fee. You may send your request in writing to the Board of Directors in care of Management at the address below.

The meetings of the Board of Directors are scheduled to be held on a regular basis on the third Tuesday of every month at StoneKastle Community Management, 22722 Old Canal Road, Unit B, Yorba Linda, CA 92887. These meeting dates are subject to change or cancellation if there is a lack of quorum of the Board. Please call StoneKastle Community Management to confirm the meeting you plan to attend.

Should you have any questions, regarding the enclosed information, please contact the Board, in writing or attend a Board meeting.

KERRIGAN RANCH II COMMUNITY ASSOCIATION
Professionally Managed by StoneKastle Community Management, Inc.
22722 Old Canal Road, Unit B, Yorba Linda, CA 92887
Phone: (714) 395-5245 Fax: (866) 575-0549
www.stonekastle.com

VanDerPol and Company
A Professional Accountancy Corporation
151 Kalmus Drive, #M-3A, Costa Mesa, California 92626
(714) 437-1025, FAX (714) 437-5900

October 17, 2024

Kerrigan Ranch II Community Association
c/o StoneKastle Community Management
22722 Old Canal Road, Unit B
Yorba Linda, California 92887

To the Board of Directors:

Enclosed you will find the final version of the financial statements for Kerrigan Ranch II 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,

Catherine VanDerPol

VanDerPol and Company
A Professional Accountancy Corporation

Enclosures

KERRIGAN RANCH II COMMUNITY ASSOCIATION
AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2023

KERRIGAN RANCH II COMMUNITY ASSOCIATION

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VanDerPol and Company
A Professional Accountancy Corporation
151 Kalmus Drive, #M-3A, Costa Mesa, California 92626 (714) 437-1025, FAX (714) 437-5900

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Owners
Kerrigan Ranch II Community Association

Opinion

We have audited the accompanying financial statements of Kerrigan Ranch II Community Association, which comprise the balance sheet as of December 31, 2023, 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 Kerrigan Ranch II Community Association as of December 31, 2023, 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 Kerrigan Ranch II 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 Kerrigan Ranch II 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 Kerrigan Ranch II 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 Kerrigan Ranch II 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

October 12, 2024

KERRIGAN RANCH II COMMUNITY ASSOCIATION
BALANCE SHEET
AS OF DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and cash equivalents [Note 8]	$ 63,322	$ 311,555	$ 374,877
Member assessments receivable, less allowance for doubtful collection of $60,600	4,771	--	4,771
Investments [Note 9]	--	400,000	400,000
Accrued interest receivable	--	6,168	6,168
Other receivable	310	--	310
Prepaid insurance	400	--	400
Total Assets	$ 68,803	$ 717,723	$ 786,526
LIABILITIES			
Accounts payable	$ 20,750	$ --	$ 20,750
Prepaid assessments	53,117	--	53,117
Income taxes payable	2,010	--	2,010
Contract liability [Note 4]	--	547,528	547,528
Total Liabilities	75,877	547,528	623,405
FUND BALANCES	(7,074)	170,195	163,121
TOTAL LIABILITIES AND FUND BALANCES	$ 68,803	$ 717,723	$ 786,526

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

KERRIGAN RANCH II COMMUNITY ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Total
REVENUES			
Member assessments [Note 3]	$ 461,126	$ 36,607	$ 497,733
Interest	60	8,228	8,288
Bad debt recovery	6,596	--	6,596
Other income	48,215	--	48,215
Total Revenues	515,997	44,835	560,832
EXPENSES			
Utilities:			
Electricity	4,574	--	4,574
Water	100,477	--	100,477
Maintenance:			
Landscape maintenance and supplies	232,454	16,890	249,344
Irrigation repairs	7,950	6,710	14,660
Tree maintenance	23,210	2,321	25,531
Pest control	4,746	--	4,746
Lighting maintenance and supplies	7,700	--	7,700
Patrol service	22,100	--	22,100
Other common area maintenance	3,127	690	3,817
Cameras	--	9,600	9,600
Administrative:			
Insurance	6,819	--	6,819
Management fees	46,800	--	46,800
Legal fees	60,285	--	60,285
Other professional fees	4,425	--	4,425
Income taxes [Note 7]	2,010	--	2,010
Other administrative expenses	17,049	396	17,445
Social activities	10,764	--	10,764
Total Expenses	554,490	36,607	591,097
EXCESS OF REVENUES OVER/(UNDER) EXPENSES	(38,493)	8,228	(30,265)
Beginning Fund Balances	193,386	--	193,386
Interfund Transfer	(161,967)	161,967	--
Ending Fund Balances	$ (7,074)	$ 170,195	$ 163,121

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

KERRIGAN RANCH II COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over/(under) expenses	$ (38,493)	$ 8,228	$ (30,265)
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:			
Decrease in member assessments receivable	1,805	--	1,805
Decrease in accrued interest receivable	1	313	314
Increase in other receivable	(310)	--	(310)
Decrease in prepaid taxes	1,554	--	1,554
Decrease in prepaid insurance	372	--	372
Decrease in accounts payable	(36,420)	(12,928)	(49,348)
Increase in prepaid assessments	3,170	--	3,170
Increase in income taxes payable	2,010	--	2,010
Increase in contract liability	--	71,357	71,357
Net cash provided/(used) by operating activities	(66,311)	66,970	659
Cash flows from investing activities			
Acquisition of certificates of deposit	--	(400,000)	(400,000)
Maturity of certificates of deposit	--	279,967	279,967
Net cash used by investing activities	--	(120,033)	(120,033)
Cash flows from financing activities			
Interfund transfer	(161,967)	161,967	--
Net increase/(decrease) in cash	(228,278)	108,904	(119,374)
Cash at beginning of year	291,600	202,651	494,251
Cash at end of year	$ 63,322	$ 311,555	$ 374,877

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

KERRIGAN RANCH II COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1. ORGANIZATION

Kerrigan Ranch II Community Association [the Association] is a statutory homeowners association which was organized as a non-profit mutual benefit corporation in August 2003. The purpose of the Association is primarily to maintain, preserve and control the common areas of the Association. The Association consists of 234 residential units and is located in Yorba Linda, California.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Accounting - The books and records for the Association are maintained on a modified accrual basis of accounting. For these financial statements, adjustments have been made at December 31, 2023 to convert the Association's records to the full 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 December 31, 2023, 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 Operating 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 obligations are satisfied at transaction amounts expected to be collected.

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 December 31, 2023, the Association's monthly assessment was $205 per unit. For 2024, the monthly assessment is budgeted to remain at $205 per unit.

Assessments receivable at December 31, 2023 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. At December 31, 2023, the Association has recorded an allowance for uncollectible assessments of $60,600. This allowance represents an estimated amount which was calculated using historical collection information.

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. For the year ended December 31, 2023, assessment income and late charges and related revenue was reduced by $6,550 and $1,646, respectively, for this change in accounting. 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 December 31, 2023, the Association assessed and allocated $107,964 to the Replacement Fund. The contract liability balance at the beginning of the year and end of the year was $476,171 and $547,528, respectively.

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.

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 September 2023 and recommends a contribution to the Replacement Fund of approximately $97,831 ($34.84 per unit per month) for 2024. 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 December 31, 2023, the Association funded $107,964 from assessments to the Replacement Fund, along with a transfer from surplus operating funds of $161,967. The 2024 budget includes a provision for replacement funding of $68,202 ($24.29 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 December 31, 2023, the Association elected to file as a regular corporation using certain provisions available to membership organizations. 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. For the year ended December 31, 2023, the federal and California income tax expense was $1,361 and $649, 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.

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 December 31, 2023, the Association maintained cash balances at the following institutions:

Operating Fund:

First Citizens Bank - checking with interest	$ 62,322
Petty Cash	1,000
Total Cash - Operating Fund	$ 63,322

Replacement Fund:

First Citizens Bank - checking with interest	$ 161,590
Morgan Stanley Private Bank - savings	150,084
Morgan Stanley - money funds	(119)
Total Cash - Replacement Fund	$ 311,555

NOTE 9. INVESTMENTS

The Association's investments consist of certificates of deposit with original maturities over 90 days. Investment income from these investments is recorded when earned or accrued. The investments are considered to be held to maturity and are carried at cost, which approximates the fair value.

At December 31, 2023, the Association's investments were as follows:

Replacement Fund:

Beal Bank - 5.20%, 2/28/24	$ 100,000
State Bank of India - 5.45%, 5/13/24	100,000
PNC Bank - 5.25%, 5/23/24	100,000
Sofi Bank - 5.25%, 8/23/24	100,000
Total Investments - Replacement Fund	$ 400,000

NOTE 10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

There were no cash payments for the year ended December 31, 2023. No interest was paid and there were no non-cash investing or financing transactions during the year.

NOTE 11. LEGAL

On October 30, 2023, the Association filed a lawsuit against an owner in the Association alleging various causes of action arising from alleged unauthorized modifications and encroachments to the common areas. This matter has been tendered to the Association's insurance carrier for defense. A trial date is scheduled for December 1, 2025. As this matter is pending, an outcome cannot be determined as this time.

NOTE 12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 12, 2024, which is the date the financial statements were available to be issued.

KERRIGAN RANCH II COMMUNITY ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS & REPLACEMENTS
AS OF DECEMBER 31, 2023
(UNAUDITED)

An independent reserve study was conducted in September 2023 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based upon representations by the Board of Directors and the experience and knowledge of the independent reserve analyst. The estimates were based on current replacement costs adjusted for an annual inflation rate of 3.5%. 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 2.0%.

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 *Recommended* Funding Requirement**	**Study's *Recommended* Fund Balance**
Access roads	0-8 years	$ 38,700	$ 2,922	$ 28,330
Painting	0-4 years	41,050	8,972	32,436
Fences/walls	8-10 years	251,540	13,857	175,444
Mailboxes	19 years	112,554	6,413	23,449
Signs	0-23 years	85,536	4,840	40,106
Irrigation	5-13 years	332,000	21,983	188,432
Landscape	0-6 years	35,000	35,993	70,000
Contingency	N/A years	--	2,851	16,746
	Total	$ 896,380	$ 97,831	$ 574,943
The accumulated contract liability and Replacement Fund balance at 12/31/23:				$ 717,723