

**STONELAKE MASTER
ASSOCIATION**

(a California nonprofit mutual benefit corporation)

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2015 and 2014



TABLE OF CONTENTS

INDEPENDENT ACCOUNTANT'S REVIEW REPORT	Page 1-2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statements of Revenues, Expenses, and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to Financial Statements	6-8
SUPPLEMENTARY INFORMATION	
Schedule of Operating Fund Revenues and Expenses - Budget and Actual	9
Supplementary Information on Future Major Repairs and Replacements	10

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Stonelake Master Association

I have reviewed the accompanying financial statements of Stonelake Master Association, which comprise the balance sheets as of December 31, 2015 and 2014, 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, I 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

My responsibility is to conduct the review engagement 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 me to perform procedures to obtain limited assurance as a basis for reporting whether I am 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. I believe that the results of my procedures provide a reasonable basis for my conclusion.

Accountant's Conclusion on the Financial Statements

Based on my review, I am 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.

Paula E. Hegner

CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT ACCOUNTANT'S REVIEW REPORT-(continued)

Supplementary Information

The supplementary information included in the Schedule of Operating Fund Revenues and Expenses - Budget and Actual on page 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. I have reviewed the information (except for the budget information, which I have not audited or reviewed and, accordingly, I do not express an opinion, a conclusion, nor provide any assurance on it) and, based on my review, I am not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. I have not audited the information and, accordingly, do not express an opinion on it.

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 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. I have not audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

Paula E. Hegner

Folsom, California

April 10, 2016

STONELAKE MASTER ASSOCIATION
BALANCE SHEETS
December 31, 2015 and 2014

	2015			2014		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
ASSETS						
Cash, including interest bearing deposits	\$ 745,818	\$ 1,022,165	\$ 1,767,983	\$ 738,382	\$ 849,586	\$ 1,587,968
Assessments receivable, net	14,149	-	14,149	16,096	-	16,096
Other receivables	8,070	-	8,070	88	-	88
Prepaid insurance	15,339	-	15,339	15,661	-	15,661
Property and equipment, net	2,559,328	-	2,559,328	2,663,784	-	2,663,784
Due (to) from other fund	30,689	(30,689)	-	-	-	-
TOTAL ASSETS	\$ 3,373,393	\$ 991,476	\$ 4,364,869	\$ 3,434,011	\$ 849,586	\$ 4,283,597
LIABILITIES						
Accounts payable	\$ 6,689	\$ -	\$ 6,689	\$ 21,056	\$ -	\$ 21,056
Assessments received in advance	62,664	-	62,664	62,434	-	62,434
Refundable deposits	4,450	-	4,450	-	-	-
TOTAL LIABILITIES	73,803	-	73,803	83,490	-	83,490
FUND BALANCES	3,299,590	991,476	4,291,066	3,350,521	849,586	4,200,107
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,373,393	\$ 991,476	\$ 4,364,869	\$ 3,434,011	\$ 849,586	\$ 4,283,597

See accompanying notes and independent accountant's review report.

STONELAKE MASTER ASSOCIATION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
 For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
REVENUES						
Member assessments	\$ 938,592	\$ 187,296	\$ 1,125,888	\$ 975,780	\$ 150,108	\$ 1,125,888
Late fees and interest	3,991	-	3,991	3,810	-	3,810
Activities	6,258	-	6,258	6,307	-	6,307
Clubhouse rentals	20,419	-	20,419	21,502	-	21,502
Miscellaneous income	3,980	-	3,980	2,727	-	2,727
Violation fees	379	-	379	434	-	434
Bad debt recovery	500	-	500	4,792	-	4,792
Interest income	-	1,922	1,922	-	1,540	1,540
TOTAL REVENUES	<u>974,119</u>	<u>189,218</u>	<u>1,163,337</u>	<u>1,015,352</u>	<u>151,648</u>	<u>1,167,000</u>
EXPENSES						
Accounting	2,895	-	2,895	2,875	-	2,875
Administration	38,844	-	38,844	74,625	-	74,625
Community services/events	31,766	-	31,766	22,851	-	22,851
Depreciation-Clubhouse	104,456	-	104,456	104,456	-	104,456
Insurance	26,617	-	26,617	26,864	-	26,864
Landscaping	39,532	-	39,532	35,711	-	35,711
Legal fees	18,606	-	18,606	7,174	-	7,174
Management fees	128,118	-	128,118	124,386	-	124,386
Miscellaneous contingency	2,645	-	2,645	2,173	-	2,173
On-site staff	357,185	-	357,185	350,020	-	350,020
Pool services	57,768	-	57,768	63,290	-	63,290
Repairs & maintenance-common area	55,883	-	55,883	59,115	-	59,115
Reserve study	250	-	250	2,200	-	2,200
Security	71,305	-	71,305	60,384	-	60,384
Utilities	89,180	-	89,180	105,025	-	105,025
Major repairs and replacements	-	47,328	47,328	-	-	-
TOTAL EXPENSES	<u>1,025,050</u>	<u>47,328</u>	<u>1,072,378</u>	<u>1,041,149</u>	<u>-</u>	<u>1,041,149</u>
Excess (deficiency) of revenues over expenses	(50,931)	141,890	90,959	(25,797)	151,648	125,851
Beginning fund balances	<u>3,350,521</u>	<u>849,586</u>	<u>4,200,107</u>	<u>3,376,318</u>	<u>697,938</u>	<u>4,074,256</u>
Ending fund balances	<u>\$ 3,299,590</u>	<u>\$ 991,476</u>	<u>\$ 4,291,066</u>	<u>\$ 3,350,521</u>	<u>\$ 849,586</u>	<u>\$ 4,200,107</u>

See accompanying notes and independent accountant's review report.

STONELAKE MASTER ASSOCIATION
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:						
Excess (deficiency) of revenues over expenses	\$ (50,931)	\$ 141,890	\$ 90,959	\$ (25,797)	\$ 151,648	\$ 125,851
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities						
Depreciation	104,456	-	104,456	104,456	-	104,456
(Increase) decrease in:						
Assessments receivable	1,947	-	1,947	(423)	-	(423)
Other receivables	(7,982)	-	(7,982)	(88)	-	(88)
Other assets	-	-	-	1,750	-	1,750
Prepaid insurance	322	-	322	16	-	16
Due (to) from other fund	(30,689)	30,689	-	-	-	-
Increase (decrease) in:						
Accounts payable	(14,367)	-	(14,367)	6,798	-	6,798
Assessments received in advance	230	-	230	(2,725)	-	(2,725)
Refundable deposits	4,450	-	4,450	-	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7,436</u>	<u>172,579</u>	<u>180,015</u>	<u>83,987</u>	<u>151,648</u>	<u>235,635</u>
NET INCREASE IN CASH	7,436	172,579	180,015	83,987	151,648	235,635
CASH, BEGINNING OF YEAR	<u>738,382</u>	<u>849,586</u>	<u>1,587,968</u>	<u>654,395</u>	<u>697,938</u>	<u>1,352,333</u>
CASH, END OF YEAR	<u>\$ 745,818</u>	<u>\$1,022,165</u>	<u>\$1,767,983</u>	<u>\$ 738,382</u>	<u>\$ 849,586</u>	<u>\$ 1,587,968</u>
SUPPLEMENTAL DISCLOSURE						
Income taxes paid	<u>\$ -</u>			<u>\$ -</u>		
Interest paid	<u>\$ -</u>			<u>\$ -</u>		

See accompanying notes and independent accountant's review report.

NOTE A - NATURE OF ORGANIZATION

Stonelake Master Association (the Association) was incorporated on March 27, 2000 in the State of California. The Association is responsible for the operation and maintenance of the common property within the development. The development is located in Elk Grove, California and consists of 1,467 lots.

The Association derives its authority and responsibilities from its Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations, but major decisions are referred to the general Association membership.

NOTE B - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 10, 2016, the date that the financial statements were available to be issued.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are prepared using the accrual basis of accounting.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure 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 the following funds established according to their nature and purpose:

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

Cash and Cash Equivalents

The Association considers all short term investments with an original maturity of three months or less to be cash equivalents. The Association maintains its cash balances in financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 per depositor. Accounts at US Bank over the \$250,000 FDIC insurance limit are covered by excess deposit insurance provided at no cost to the Association.

Interest Income

Interest income is allocated to the operating and replacement fund in proportion to the interest-bearing deposits of each fund.

NOTE C - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to enforce collection of assessments by retaining legal counsel and by placing liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances. However, the Association has adopted the allowance for uncollectible assessments method of providing for assessments which may not be collected. At December 31, 2015 and 2014, assessments receivable is net of an allowance for uncollectible assessments of \$70,805 and \$71,048 respectively.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2015 and 2014, the Association elected to be taxed as a homeowners association and filed Form 1120-H. Under this election, the Association is taxed on its nonexempt function income, such as interest earnings at a rate of 30% by the federal government and a rate of 8.84% by the State of California. Exempt function income, which consists primarily of member assessments, is not taxable. The Associations' tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and for a period of four years by California taxing authorities.

Capitalization Policy and Depreciation

Property and equipment acquired, having a cost of at least \$1,000, to which the Association has normal ownership rights, has been capitalized at cost and depreciated over its estimated useful life using the straight-line method. The estimated life of the clubhouse is 39 years.

Common areas acquired from the developer and related improvements to such property have not been capitalized on the Association's financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

NOTE D- LITIGATION

The Association is, from time to time, involved in various legal matters arising in the ordinary course of its business that will not, in the opinion of the Association's management, have a material affect on the results of the Association's operations.

STONELAKE MASTER ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015 and 2014

NOTE E - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. An independent study was conducted the Browning Reserve Group for the 2016 year estimating the remaining useful lives and the replacement costs of the common property components. The estimates were obtained from licensed contractors who inspected the property. At the time the study was conducted, the assumed long-term interest rate earned on reserve funds was 2.5% per year, and the assumed long-term inflation rate to be applied to major component repair and replacement costs was 2.5% per year.

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, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Estimated Useful Life</u>
Clubhouse	\$ 4,073,940	\$ 4,073,940	39 years
Less: Accumulated depreciation	<u>(1,514,612)</u>	<u>(1,410,156)</u>	
Total Property & Equipment	<u>\$ 2,559,328</u>	<u>\$ 2,663,784</u>	

See independent accountant's review report.

STONELAKE MASTER ASSOCIATION

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES-BUDGET AND ACTUAL

For the Years Ended December 31, 2015 and 2014

	2015 Budget (compiled)	2015 Actual	Variance- Favorable (Unfavorable) (compiled)	2014 Actual
REVENUES				
Member assessments	\$ 976,548	\$ 938,592	\$ (37,956)	\$ 975,780
Late fees and interest	-	3,991	3,991	3,810
Activities	-	6,258	6,258	6,307
Clubhouse rentals	-	20,419	20,419	21,502
Miscellaneous income	36,720	3,980	(32,740)	2,727
Violation fees	-	379	379	434
Bad debt recovery	-	500	500	4,792
TOTAL REVENUES	1,013,268	974,119	(39,149)	1,015,352
EXPENSES				
Accounting	2,880	2,895	(15)	2,875
Administration	71,892	38,844	33,048	74,625
Bad debt expense	36,000	-	36,000	-
Community services	36,000	31,766	4,234	22,851
Depreciation-Clubhouse	-	104,456	(104,456)	104,456
Insurance	26,880	26,617	263	26,864
Landscaping	37,704	39,532	(1,828)	35,711
Legal fees	36,000	18,606	17,394	7,174
Management fees	124,380	128,118	(3,738)	124,386
Miscellaneous contingency	13,200	2,645	10,555	2,173
On-site staff	365,400	357,185	8,215	350,020
Pool services	56,940	57,768	(828)	63,290
Repairs & maintenance-common area	50,460	55,883	(5,423)	59,115
Reserve study	360	250	110	2,200
Security	59,880	71,305	(11,425)	60,384
Utilities	95,292	89,180	6,112	105,025
TOTAL EXPENSES	1,013,268	1,025,050	(11,782)	1,041,149
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	\$ -	\$ (50,931)	\$ (50,931)	\$ (25,797)

See independent accountant's review report.

STONELAKE MASTER ASSOCIATION
SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2015

The Board of Directors of Stonelake Master Association contracted with The Browning Reserve Group to prepare a Replacement Reserve Study for the 2016 year, to estimate the remaining useful lives and the replacement cost of the components of common property. The estimates were based on visual inspection of the components and estimated replacement costs were based on their own construction cost estimator and on the opinion of independent contractors where they felt it necessary for outside consultation.

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

Reserve Component	Current Replacement Cost	Useful Life	Remaining Life	2015 Fully Funded Balance	2016 Fully Funded Balance	2016 Line Item Contribution based on Cash Flow Method
Paving	\$ 82,539	5-25	2-12	\$ 43,854	\$ 49,934	\$ 8,680
Concrete	65,246	8-15	1-6	56,964	63,398	7,426
Painting: exterior	43,233	5-10	2-7	17,513	23,934	9,497
Painting: interior	22,134	10-10	7-7	6,640	9,075	3,832
Structural repairs	60,962	5-25	1-10	46,218	50,683	5,292
Roofing	108,578	1-30	1-15	54,289	61,342	10,440
Rehab	83,343	20-20	6-11	51,440	56,998	7,344
Gate Equipment	3,290	5-20	1-11	2,413	3,052	855
Pool	133,246	1-24	1-17	100,471	117,539	21,965
Spa	23,057	6-10	1-8	13,703	17,051	4,633
Recreation	120,745	6-20	1-9	90,684	110,674	26,290
Landscaping	54,607	1-20	1-13	38,086	51,249	17,980
Fencing	51,602	5-25	1-11	29,330	32,475	4,345
Lighting	75,981	3-25	1-11	46,030	54,818	12,057
Signage	8,882	10-20	1-6	7,230	8,092	1,031
Office Equipment	31,637	6-10	1-1	27,669	32,428	5,922
Mechanical Equipment	47,355	10-20	1-6	33,587	37,173	4,433
Furnishings	38,463	6-20	1-6	31,945	37,113	6,452
Audio/Visual	16,816	5-15	1-9	11,469	13,784	3,091
Flooring	78,748	10-20	1-11	41,839	48,090	8,891
Outdoor Equipment	37,614	15-25	6-16	24,151	26,621	3,193
Appliances	4,105	12-15	1-2	3,624	4,018	448
Miscellaneous	63,921	2-25	1-18	41,516	50,437	12,077
Reserve Study	2,200	3-3	2-2	733	1,503	1,122
Totals	\$ 1,258,304			\$ 821,398	\$ 961,481	\$ 187,296
Estimated ending balance				\$ 1,060,463	\$ 835,522	\$ 10.64
Percent funded				129.1%	86.9%	/Unit/month @1467

See independent accountant's review report.