

**STONELAKE MASTER
ASSOCIATION**

(a California nonprofit mutual benefit corporation)

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2016 and 2015



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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, 2016 and 2015, 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

March 30, 2017

STONELAKE MASTER ASSOCIATION
BALANCE SHEETS
December 31, 2016 and 2015

	2016			2015		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
ASSETS						
Cash, including interest bearing deposits	\$ 829,113	\$ 1,155,883	\$ 1,984,996	\$ 745,818	\$ 1,022,165	\$ 1,767,983
Assessments receivable, net	14,244	-	14,244	14,149	-	14,149
Other receivables	21,302	-	21,302	8,070	-	8,070
Prepaid insurance	14,146	-	14,146	15,339	-	15,339
Property and equipment, net	2,454,872	-	2,454,872	2,559,328	-	2,559,328
Due (to) from other fund	-	-	-	30,689	(30,689)	-
TOTAL ASSETS	<u>\$ 3,333,677</u>	<u>\$ 1,155,883</u>	<u>\$ 4,489,560</u>	<u>\$ 3,373,393</u>	<u>\$ 991,476</u>	<u>\$ 4,364,869</u>
LIABILITIES						
Accounts payable	\$ 30,458	\$ -	\$ 30,458	\$ 6,689	\$ -	\$ 6,689
Assessments received in advance	56,532	-	56,532	62,664	-	62,664
Refundable deposits	4,950	-	4,950	4,450	-	4,450
TOTAL LIABILITIES	91,940	-	91,940	73,803	-	73,803
FUND BALANCES	<u>3,241,737</u>	<u>1,155,883</u>	<u>4,397,620</u>	<u>3,299,590</u>	<u>991,476</u>	<u>4,291,066</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,333,677</u>	<u>\$ 1,155,883</u>	<u>\$ 4,489,560</u>	<u>\$ 3,373,393</u>	<u>\$ 991,476</u>	<u>\$ 4,364,869</u>

See accompanying notes to the financial statements.

STONELAKE MASTER ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
REVENUES						
Member assessments	\$ 933,840	\$ 192,048	\$ 1,125,888	\$ 938,592	\$ 187,296	\$ 1,125,888
Late fees and interest	3,444	-	3,444	3,991	-	3,991
Activities	4,010	-	4,010	6,258	-	6,258
Clubhouse rentals	26,259	-	26,259	20,419	-	20,419
Miscellaneous income	2,740	-	2,740	3,980	-	3,980
Violation fees	8,600	-	8,600	379	-	379
Bad debt recovery	9,643	-	9,643	500	-	500
Interest income	1,657	3,899	5,556	-	1,922	1,922
TOTAL REVENUES	<u>990,193</u>	<u>195,947</u>	<u>1,186,140</u>	<u>974,119</u>	<u>189,218</u>	<u>1,163,337</u>
EXPENSES						
Accounting	2,895	-	2,895	2,895	-	2,895
Administration	39,026	-	39,026	38,844	-	38,844
Community services/events	42,325	-	42,325	31,766	-	31,766
Depreciation-Clubhouse	104,456	-	104,456	104,456	-	104,456
Insurance	25,444	-	25,444	26,617	-	26,617
Landscaping	40,628	-	40,628	39,532	-	39,532
Legal fees	13,016	-	13,016	18,606	-	18,606
Management fees	131,962	-	131,962	128,118	-	128,118
Miscellaneous contingency	8,143	-	8,143	2,645	-	2,645
On-site staff	377,114	-	377,114	357,185	-	357,185
Pool services	53,622	-	53,622	57,768	-	57,768
Repairs & maintenance-common area	56,643	-	56,643	55,883	-	55,883
Reserve study	250	-	250	250	-	250
Security	65,820	-	65,820	71,305	-	71,305
Utilities	86,702	-	86,702	89,180	-	89,180
Major repairs and replacements	-	31,540	31,540	-	47,328	47,328
TOTAL EXPENSES	<u>1,048,046</u>	<u>31,540</u>	<u>1,079,586</u>	<u>1,025,050</u>	<u>47,328</u>	<u>1,072,378</u>
Excess (deficiency) of revenues over expenses	(57,853)	164,407	106,554	(50,931)	141,890	90,959
Beginning 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>
Ending fund balances	<u>\$ 3,241,737</u>	<u>\$ 1,155,883</u>	<u>\$ 4,397,620</u>	<u>\$ 3,299,590</u>	<u>\$ 991,476</u>	<u>\$ 4,291,066</u>

See accompanying notes to the financial statements.

STONELAKE MASTER ASSOCIATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:						
Excess (deficiency) of revenues over expenses	\$ (57,853)	\$ 164,407	\$ 106,554	\$ (50,931)	\$ 141,890	\$ 90,959
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	(95)	-	(95)	1,947	-	1,947
Other receivables	(13,232)	-	(13,232)	(7,982)	-	(7,982)
Other assets	-	-	-	-	-	-
Prepaid insurance	1,193	-	1,193	322	-	322
Due (to) from other fund	30,689	(30,689)	-	(30,689)	30,689	-
Increase (decrease) in:						
Accounts payable	23,769	-	23,769	(14,367)	-	(14,367)
Assessments received in advance	(6,132)	-	(6,132)	230	-	230
Refundable deposits	500	-	500	4,450	-	4,450
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>83,295</u>	<u>133,718</u>	<u>217,013</u>	<u>7,436</u>	<u>172,579</u>	<u>180,015</u>
NET INCREASE IN CASH	83,295	133,718	217,013	7,436	172,579	180,015
CASH, BEGINNING 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>
CASH, END OF YEAR	<u>\$ 829,113</u>	<u>\$1,155,883</u>	<u>\$1,984,996</u>	<u>\$ 745,818</u>	<u>\$1,022,165</u>	<u>\$ 1,767,983</u>
SUPPLEMENTAL DISCLOSURE						
Income taxes paid	<u>\$ -</u>			<u>\$ -</u>		
Interest paid	<u>\$ -</u>			<u>\$ -</u>		

See accompanying notes to the financial statements.

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 March 30, 2017, 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, 2016 and 2015, assessments receivable is net of an allowance for uncollectible assessments of \$60,705 and \$70,805 respectively.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2016 and 2015, 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, 2016 and 2015

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 2017 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Estimated Useful Life</u>
Clubhouse	\$ 4,073,940	\$ 4,073,940	39 years
Less: Accumulated depreciation	<u>(1,619,068)</u>	<u>(1,514,612)</u>	
Total Property & Equipment	<u>\$ 2,454,872</u>	<u>\$ 2,559,328</u>	

STONELAKE MASTER ASSOCIATION

SUPPLEMENTARY INFORMATION

SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES-BUDGET AND ACTUAL

For the Years Ended December 31, 2016 and 2015

	2016 Budget (compiled)	2016 Actual	Variance- Favorable (Unfavorable) (compiled)	2015 Actual
REVENUES				
Member assessments	\$ 934,608	\$ 933,840	\$ (768)	\$ 938,592
Late fees and interest	-	3,444	3,444	3,991
Activities	-	4,010	4,010	6,258
Clubhouse rentals	-	26,259	26,259	20,419
Miscellaneous income	36,000	2,740	(33,260)	3,980
Violation fees	-	8,600	8,600	379
Bad debt recovery	-	9,643	9,643	500
Interest	-	1,657	1,657	-
TOTAL REVENUES	970,608	990,193	19,585	974,119
EXPENSES				
Accounting	2,904	2,895	9	2,895
Administration	45,072	39,026	6,046	38,844
Bad debt expense	12,000	-	12,000	-
Community services	48,000	42,325	5,675	31,766
Depreciation-Clubhouse	-	104,456	(104,456)	104,456
Insurance	28,800	25,444	3,356	26,617
Landscaping	40,140	40,628	(488)	39,532
Legal fees	24,000	13,016	10,984	18,606
Management fees	131,964	131,962	2	128,118
Miscellaneous contingency	4,800	8,143	(3,343)	2,645
On-site staff	360,000	377,114	(17,114)	357,185
Pool services	58,200	53,622	4,578	57,768
Repairs & maintenance-common area	54,168	56,643	(2,475)	55,883
Reserve study	1,200	250	950	250
Security	65,820	65,820	-	71,305
Utilities	93,540	86,702	6,838	89,180
TOTAL EXPENSES	970,608	1,048,046	(77,438)	1,025,050
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	\$ -	\$ (57,853)	\$ (57,853)	\$ (50,931)

STONELAKE MASTER ASSOCIATION
SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2016

The Board of Directors of Stonelake Master Association contracted with The Browning Reserve Group to prepare a Replacement Reserve Study for the 2017 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	2016 Fully Funded Balance	2017 Fully Funded Balance	2017 Line Item Contribution based on Cash Flow Method
Paving	\$ 84,603	5-25	1-11	\$ 49,934	\$ 56,290	\$ 8,895
Concrete	66,877	8-15	1-2	61,059	67,721	7,694
Painting: exterior	44,314	5-10	1-6	23,934	30,666	9,732
Painting: interior	22,687	10-10	6-6	9,075	11,627	3,927
Structural repairs	62,486	5-25	1-9	49,242	53,866	5,477
Roofing	111,293	1-30	1-14	59,214	66,532	10,778
Rehab	85,426	20-20	5-10	56,998	62,801	7,526
Gate Equipment	3,373	5-20	1-10	2,506	3,161	897
Pool	134,294	1-24	0-16	107,917	119,454	22,367
Spa	23,634	6-10	0-7	16,635	10,271	4,763
Recreation	119,503	6-20	0-8	99,269	108,021	26,152
Landscaping	63,556	1-20	0-12	46,900	52,420	18,583
Fencing	52,892	5-25	1-10	32,105	35,380	4,466
Lighting	77,880	3-25	1-10	49,755	58,827	12,544
Signage	9,104	10-20	1-5	7,613	8,502	1,074
Office Equipment	32,428	6-10	1-1	28,361	33,238	6,221
Mechanical Equipment	48,539	10-20	1-5	36,858	40,594	4,555
Furnishings	39,424	6-20	1-5	33,144	38,452	6,760
Audio/Visual	17,236	5-15	1-8	12,188	14,571	3,227
Flooring	80,716	10-20	1-10	47,212	53,727	9,144
Outdoor Equipment	38,554	15-25	5-15	26,621	29,198	3,272
Appliances	4,208	12-15	1-1	3,905	4,313	464
Miscellaneous	80,250	1-25	0-17	55,284	48,450	12,408
Reserve Study	2,200	3-3	1-1	1,467	2,255	1,122
Totals	\$ 1,305,477			\$ 917,196	\$ 1,010,337	\$ 192,048
Estimated ending balance				\$ 1,193,073	\$ 920,759	\$ 10.91
Percent funded				103.1%	91.1%	/Unit/month @1467