

**STONELAKE MASTER
ASSOCIATION**

(a California nonprofit mutual benefit corporation)

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2017 and 2016



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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, 2017 and 2016, 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 25, 2018

STONELAKE MASTER ASSOCIATION
BALANCE SHEETS
December 31, 2017 and 2016

	2017			2016		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
ASSETS						
Cash, including interest bearing deposits	\$ 849,364	\$ 1,274,601	\$ 2,123,965	\$ 829,113	\$ 1,155,883	\$ 1,984,996
Assessments receivable, net	11,926	-	11,926	14,244	-	14,244
Other receivables	3,968	-	3,968	21,302	-	21,302
Prepaid insurance	14,140	-	14,140	14,146	-	14,146
Property and equipment, net	2,350,416	-	2,350,416	2,454,872	-	2,454,872
Due (to) from other fund	6,677	(6,677)	-	-	-	-
TOTAL ASSETS	<u>\$ 3,236,491</u>	<u>\$ 1,267,924</u>	<u>\$ 4,504,415</u>	<u>\$ 3,333,677</u>	<u>\$ 1,155,883</u>	<u>\$ 4,489,560</u>
LIABILITIES						
Accounts payable	\$ 9,058	\$ -	\$ 9,058	\$ 30,458	\$ -	\$ 30,458
Assessments received in advance	53,609	-	53,609	56,532	-	56,532
Refundable deposits	7,650	-	7,650	4,950	-	4,950
TOTAL LIABILITIES	70,317	-	70,317	91,940	-	91,940
FUND BALANCES	<u>3,166,174</u>	<u>1,267,924</u>	<u>4,434,098</u>	<u>3,241,737</u>	<u>1,155,883</u>	<u>4,397,620</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,236,491</u>	<u>\$ 1,267,924</u>	<u>\$ 4,504,415</u>	<u>\$ 3,333,677</u>	<u>\$ 1,155,883</u>	<u>\$ 4,489,560</u>

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, 2017 and 2016

	2017			2016		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
REVENUES						
Member assessments	\$ 930,108	\$ 195,780	\$ 1,125,888	\$ 933,840	\$ 192,048	\$ 1,125,888
Late fees and interest	1,035	-	1,035	3,444	-	3,444
Activities	5,568	-	5,568	4,010	-	4,010
Clubhouse rentals	34,134	-	34,134	26,259	-	26,259
Miscellaneous income	7,432	-	7,432	2,740	-	2,740
Violation fees	6,950	-	6,950	8,600	-	8,600
Bad debt recovery	-	-	-	9,643	-	9,643
Interest income	2,953	5,860	8,813	1,657	3,899	5,556
TOTAL REVENUES	988,180	201,640	1,189,820	990,193	195,947	1,186,140
EXPENSES						
Accounting	2,895	-	2,895	2,895	-	2,895
Administration	40,478	-	40,478	39,026	-	39,026
Bad debt expense	3,105	-	3,105	-	-	-
Community services/events	32,434	-	32,434	42,325	-	42,325
Depreciation-Clubhouse	104,456	-	104,456	104,456	-	104,456
Insurance	24,247	-	24,247	25,444	-	25,444
Landscaping	50,205	-	50,205	40,628	-	40,628
Legal fees	6,361	-	6,361	13,016	-	13,016
Management fees	135,920	-	135,920	131,962	-	131,962
Miscellaneous contingency	1,462	-	1,462	8,143	-	8,143
On-site staff	370,785	-	370,785	377,114	-	377,114
Pool services	73,500	-	73,500	53,622	-	53,622
Repairs & maintenance-common area	59,633	-	59,633	56,643	-	56,643
Reserve study	2,200	-	2,200	250	-	250
Security	74,259	-	74,259	65,820	-	65,820
Utilities	81,803	-	81,803	86,702	-	86,702
Major repairs and replacements	-	89,599	89,599	-	31,540	31,540
TOTAL EXPENSES	1,063,743	89,599	1,153,342	1,048,046	31,540	1,079,586
Excess (deficiency) of revenues over expenses	(75,563)	112,041	36,478	(57,853)	164,407	106,554
Beginning fund balances	3,241,737	1,155,883	4,397,620	3,299,590	991,476	4,291,066
Ending fund balances	<u>\$ 3,166,174</u>	<u>\$ 1,267,924</u>	<u>\$ 4,434,098</u>	<u>\$ 3,241,737</u>	<u>\$ 1,155,883</u>	<u>\$ 4,397,620</u>

See accompanying notes and independent accountant's review report.

STONELAKE MASTER ASSOCIATION
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:						
Excess (deficiency) of revenues over expenses	\$ (75,563)	\$ 112,041	\$ 36,478	\$ (57,853)	\$ 164,407	\$ 106,554
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	2,318	-	2,318	(95)	-	(95)
Other receivables	17,334	-	17,334	(13,232)	-	(13,232)
Prepaid insurance	6	-	6	1,193	-	1,193
Due (to) from other fund	(6,677)	6,677	-	30,689	(30,689)	-
Increase (decrease) in:						
Accounts payable	(21,400)	-	(21,400)	23,769	-	23,769
Assessments received in advance	(2,923)	-	(2,923)	(6,132)	-	(6,132)
Refundable deposits	2,700	-	2,700	500	-	500
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>20,251</u>	<u>118,718</u>	<u>138,969</u>	<u>83,295</u>	<u>133,718</u>	<u>217,013</u>
NET INCREASE IN CASH	20,251	118,718	138,969	83,295	133,718	217,013
CASH, BEGINNING 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>
CASH, END OF YEAR	<u>\$ 849,364</u>	<u>\$1,274,601</u>	<u>\$2,123,965</u>	<u>\$ 829,113</u>	<u>\$1,155,883</u>	<u>\$ 1,984,996</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 March 25, 2018, 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, 2017 and 2016, assessments receivable is net of an allowance for uncollectible assessments of \$67,107 and \$60,705 respectively.

Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the years ended December 31, 2017 and 2016, 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, 2017 and 2016

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 2018 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Life</u>
Clubhouse	\$ 4,073,940	\$ 4,073,940	39 years
Less: Accumulated depreciation	<u>(1,723,524)</u>	<u>(1,619,068)</u>	
Total Property & Equipment	<u>\$ 2,350,416</u>	<u>\$ 2,454,872</u>	

STONELAKE MASTER ASSOCIATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES-BUDGET AND ACTUAL
For the Years Ended December 31, 2017 and 2016

	2017 Budget (compiled)	2017 Actual	Variance- Favorable (Unfavorable) (compiled)	2016 Actual
REVENUES				
Member assessments	\$ 930,876	\$ 930,108	\$ (768)	\$ 933,840
Late fees and interest	-	1,035	1,035	3,444
Activities	-	5,568	5,568	4,010
Clubhouse rentals	-	34,134	34,134	26,259
Miscellaneous income	36,000	7,432	(28,568)	2,740
Violation fees	-	6,950	6,950	8,600
Bad debt recovery	-	-	-	9,643
Interest	-	2,953	2,953	1,657
TOTAL REVENUES	966,876	988,180	21,304	990,193
EXPENSES				
Accounting	2,904	2,895	9	2,895
Administration	39,708	40,478	(770)	39,026
Bad debt expense	2,400	3,105	(705)	-
Community services	38,400	32,434	5,966	42,325
Depreciation-Clubhouse	-	104,456	(104,456)	104,456
Insurance	28,800	24,247	4,553	25,444
Landscaping	40,020	50,205	(10,185)	40,628
Legal fees	24,000	6,361	17,639	13,016
Management fees	135,912	135,920	(8)	131,962
Miscellaneous contingency	5,100	1,462	3,638	8,143
On-site staff	360,000	370,785	(10,785)	377,114
Pool services	53,700	73,500	(19,800)	53,622
Repairs & maintenance-common area	53,892	59,633	(5,741)	56,643
Reserve study	1,200	2,200	(1,000)	250
Security	96,096	74,259	21,837	65,820
Utilities	84,744	81,803	2,941	86,702
TOTAL EXPENSES	966,876	1,063,743	(96,867)	1,048,046
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	\$ -	\$ (75,563)	\$ (75,563)	\$ (57,853)

See independent accountant's review report.

STONELAKE MASTER ASSOCIATION
SUPPLEMENTARY INFORMATION
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 December 31, 2017

The Board of Directors of Stonelake Master Association contracted with The Browning Reserve Group to prepare a Replacement Reserve Study for the 2018 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	2017 Fully Funded Balance	2018 Fully Funded Balance	2018 Line Item Contribution based on Cash Flow Method
Paving	\$ 87,362	1-25	0-10	\$ 54,661	\$ 51,619	\$ 7,182
Concrete	263,369	10-30	0-5	240,449	55,048	14,254
Painting: exterior	40,270	5-10	0-5	28,090	18,243	7,183
Painting: interior	23,557	10-10	5-5	11,779	14,488	3,224
Structural repairs	21,056	5-25	2-14	9,742	12,286	3,081
Roofing	122,293	1-30	0-13	69,240	76,670	9,228
Rehab	102,750	20-25	4-9	74,606	81,715	7,101
Pool	295,153	1-24	0-9	274,099	54,576	29,994
Spa	25,455	1-18	0-6	20,655	8,261	3,370
Recreation	118,112	6-20	0-7	91,472	84,348	20,286
Landscaping	70,256	1-10	0-3	43,227	38,989	16,074
Fencing	63,273	5-25	1-9	40,067	44,445	4,755
Lighting	88,297	3-40	1-24	41,816	47,994	7,894
Signage	9,700	15-20	4-5	6,980	7,752	791
Office Equipment	15,575	6-8	2-2	10,794	13,514	3,038
Mechanical Equipment	32,313	10-20	2-11	23,419	26,775	3,558
Furnishings	40,320	6-20	1-4	30,946	36,306	5,312
Audio/Visual	15,410	5-15	1-7	10,141	12,234	2,338
Safety/Access	42,431	4-20	0-2	40,799	11,199	5,370
Flooring	78,092	10-20	0-9	47,005	44,685	6,936
Outdoor Equipment	33,840	15-25	4-14	21,949	24,101	2,297
Appliances	5,700	15-20	2-4	4,693	5,181	469
Infrastructure	10,000	30-30	10-10	6,667	7,175	516
Miscellaneous	81,049	1-24	0-16	60,494	35,921	10,900
Reserve Study	2,200	3-3	0-0	200	752	887
Totals	\$ 1,687,833			\$ 1,263,990	\$ 814,277	\$ 176,038
Estimated ending balance				\$ 770,717	\$ 864,937	\$ 10.00
Percent funded				60.9%	106.2%	/Unit/month @1467

See independent accountant's review report.