

CARNELIAN WOODS TOWNHOUSE ASSOCIATION

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2016

McGUIGAN & McGUIGAN
CERTIFIED PUBLIC ACCOUNTANTS
345 LORTON AVE
SUITE 205
BURLINGAME, CA 94010

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
INDEX TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

	<u>Page</u>
Independent Auditors' Report	1-2
Financial Statements	
Balance Sheet	3
Statements of Revenues, Expenses, and Changes in Fund Balances	4
Schedule of Revenues and Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-13
Supplementary Information	
Supplementary Information on Future Major Repairs and Replacements	14-18

MCGUIGAN & MCGUIGAN
CERTIFIED PUBLIC ACCOUNTANTS
345 LORTON AVENUE, SUITE 205
BURLINGAME, CALIFORNIA 94010

CHARLES B. MCGUIGAN
MICHAEL J. MCGUIGAN

T (650) 348-7073
F (650) 348-8309

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Carnelian Woods Townhouse Association

We have audited the accompanying financial statements of Carnelian Woods Townhouse Association, which comprise the balance sheet as of September 30, 2016, 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.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carnelian Woods Townhouse Association as of September 30, 2016, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues and expenses on page 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 14 through 18 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, who 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.



Burlingame, CA
June 15, 2017

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
BALANCE SHEET
September 30, 2016

	<u>Operating Fund</u>	<u>Capital Replacement Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 139,844	\$ 493,064	\$ 632,908
Interfund receivable/payable	(86,614)	86,614	-
Accounts receivable	18,732	-	18,732
Prepaid insurance	2,848	-	2,848
Prepaid income taxes	1,454	-	1,454
Total Current Assets	<u>76,264</u>	<u>579,678</u>	<u>655,942</u>
Property & Equipment (At cost)			
Land	313,336	-	313,336
Furniture & equipment (Note 8)	2,970,161	-	2,970,161
Accumulated depreciation	(1,143,579)	-	(1,143,579)
Net Property & Equipment	<u>2,139,918</u>	<u>-</u>	<u>2,139,918</u>
Intangible Assets			
Loan fees	6,935	-	6,935
Accumulated amortization	(1,194)	-	(1,194)
Net Intangible Assets	<u>5,741</u>	<u>-</u>	<u>5,741</u>
Total Assets	<u>\$2,221,923</u>	<u>\$ 579,678</u>	<u>\$2,801,601</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 25,784	\$ -	\$ 25,784
Dues paid in advance	10,607	-	10,607
Notes payable (Note 6)	117,334	-	117,334
Total Current Liabilities	<u>153,725</u>	<u>-</u>	<u>153,725</u>
Long-term Liabilities			
Notes payable (Note 6)	1,772,454	-	1,772,454
Total Long-term Liabilities	<u>1,772,454</u>	<u>-</u>	<u>1,772,454</u>
Fund Balances	<u>295,744</u>	<u>579,678</u>	<u>875,422</u>
Total Liabilities and Fund Balances	<u>\$2,221,923</u>	<u>\$ 579,678</u>	<u>\$2,801,601</u>

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
 Year Ended September 30, 2016

	Operating Fund	Capital Replacement Fund	Total
REVENUES (Schedule)	\$ 711,460	\$ 383,772	\$1,095,232
EXPENSES (Schedule)	1,350,580	-	1,350,580
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	 (639,120)	 383,772	 (255,348)
NON-OPERATING INCOME (LOSS)			
Interest income	-	244	244
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE PROVISION FOR TAXES	 (639,120)	 384,016	 (255,104)
Income tax provision (Note 5)	-	-	-
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	 (639,120)	 384,016	 (255,104)
INTERFUND TRANSFERS (Note 7)	379,275	(379,275)	-
 NET INCREASE (DECREASE) IN FUND BALANCES	 (259,845)	 4,741	 (255,104)
FUND BALANCES AT SEPTEMBER 30, 2015	555,589	574,937	1,130,526
FUND BALANCES AT SEPTEMBER 30, 2016	\$ 295,744	\$ 579,678	\$ 875,422

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
SCHEDULE OF REVENUES AND EXPENSES
Year Ended September 30, 2016

	Operating Fund	Capital Replacement Fund
REVENUES		
Dues and assessments	\$ 397,388	\$ 186,948
Special assessments (Note 10)	-	196,824
Homeowner services	291,777	-
Late charges	3,050	-
Transfer fees	1,400	-
Vending income	810	-
Miscellaneous income	250	-
Key card income	16,785	-
	<u>\$ 711,460</u>	<u>\$ 383,772</u>
 EXPENSES		
Accounting	\$ 8,144	\$ -
Bad debt	1,655	-
Bank charges	78	-
Depreciation	333,681	-
Amortization	462	-
Insurance - general	37,196	-
Insurance - workers' compensation	19,302	-
Interest expense	89,252	-
Office supplies	9,508	-
Payroll taxes	43,816	-
Payroll service fees	2,471	-
Professional fees	9,343	-
Repairs and maintenance	182,550	-
Pavilion expense	3,819	-
Snow removal	4,603	-
Homeowner services costs	153,455	-
Salaries and wages	312,756	-
Security	980	-
Taxes and licenses	11,894	-
Telephone	7,639	-
Truck expense	35,874	-
Utilities	78,787	-
Directors and homeowners meeting	3,315	-
	<u>\$1,350,580</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2016

	Operating Fund	Capital Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficiency) of revenues over expenses	\$(639,120)	\$ 384,016	\$(255,104)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Depreciation	333,681	-	333,681
Amortization	462	-	462
(Increase) decrease in:			
Interfund receivable/payable	(57,367)	57,367	-
Accounts receivable	9,844	-	9,844
Prepaid insurance	(159)	-	(159)
Increase (decrease) in:			
Accounts payable	14,024	-	14,024
Dues paid in advance	(3,774)	-	(3,774)
	(342,409)	441,383	98,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(197,825)	-	(197,825)
	(197,825)	-	(197,825)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net interfund transfers	379,275	(379,275)	-
Net increase (decrease) in loans	(29,486)	-	(29,486)
	349,789	(379,275)	(29,486)
NET INCREASE (DECREASE) IN CASH	(190,445)	62,108	(128,337)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	330,289	430,956	761,245
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 139,844	\$ 493,064	\$ 632,908
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ 89,252	\$ -	\$ 89,252

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 - NATURE OF ORGANIZATION

Organization

The Carnelian Woods Townhouse Association, a California non-profit corporation, was formed December 15, 1971 and commenced operations with the close of the first escrow.

The Association is composed of owners of 118 units of real property in the complex known as Carnelian Woods, located in Carnelian Bay, California. The Association's purpose is to provide for the operation, maintenance, and preservation of the common areas. These functions are paid for by the homeowners through regular quarterly assessments, and also through special assessments as necessary.

Management

All policy decisions are formulated by the Board of Directors. Major decisions may be referred to the general Association membership before action is taken.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The financial statements of Carnelian Woods Townhouse Association (A Corporation) have been prepared on the accrual basis of accounting. Other significant accounting policies are as follows:

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Association, the accounts of the Association are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund and accordingly all financial transactions have been recorded and reported by fund. The assets, liabilities, and fund balances of the Association were reported in two self-balancing funds as follows:

Operating Fund - This fund includes unrestricted and restricted resources, and represents that portion of expendable assets which are available for the management of Association operations. Regular dues assessed to members of the Association are \$1,238 per quarter, effective for the fiscal year ending September 30, 2016, of which approximately 68 percent is allocated to the operating fund and 32 percent to the capital replacement fund.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

Capital Replacement Fund - This fund represents resources restricted for major replacements and improvements of Association property.

Cash and Cash Equivalents

In general, for purposes of the statement of cash flows, the Association considers all highly-liquid investments with maturities of three months or less and certain certificates of deposit to be cash equivalents.

Revenue Recognition

Membership dues and other assessments are recognized as revenue in the applicable assessment period.

Member Assessments

For the fiscal year ended September 30, 2016, the Association's regular dues assessment was \$1,238 per quarter per owner. Annual budgets and owners' assessments are determined by the Board of Directors. As of October 1, 2016 the association's regular dues assessment will increase 5% to \$1,300 per quarter per owner.

Contributed Facilities

The Association maintains certain common facilities for the homeowners, including the lodge, pool, tennis courts, and certain roads. These facilities, which were deeded to the Association by the developer, are not recorded in the accounts of the Association as the costs thereof were borne by the developer and owned by the individual owners in common areas, and not by the Association. The sales pavilion and 27 acres of land, also considered common facilities, were conveyed to the Association by the developer as the result of litigation.

Capitalization Policy and Depreciation

Maintenance and repairs, as well as major improvements to common areas, are charged to operations. Acquisitions of furniture, fixtures, transportation equipment, and other property and equipment additions are capitalized at cost. Depreciation is computed principally on the straight-line method over an estimated useful life of three to ten years. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in operations.

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 reported period. Actual results could differ from those estimates.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS

As of September 30, 2016, cash and cash equivalents in the Operating Fund and Capital Replacement Fund were invested as follows:

	Operating Fund	Capital Replacement Fund
Wells Fargo Bank, Non-Interest Bearing Petty Cash Checking Account	\$ 2,987	\$ -
Wells Fargo Bank, Non-Interest Bearing Checking Account	136,857	-
Wells Fargo Bank, High Yield Savings, Interest at .06% Per Annum, Maturity on Demand	-	71,600
Wells Fargo Bank, High Yield Savings, Interest at .06% Per Annum, Maturity on Demand	-	98,807
Bank of America, Certificate of Deposit, Interest at .03% Per Annum, Maturity Date of March 13, 2017	-	14,794
Bank of America, Certificate of Deposit, Interest at .04% Per Annum, Maturity Date of October 9, 2016	-	16,798
Mutual of Omaha Bank, CAB Interest Checking, Interest at 0.10% Per Annum, Maturity on Demand	-	-
Mutual of Omaha Bank, CAB Now Account, Interest at 0.05% Per Annum, Maturity on Demand	-	201,981
Mutual of Omaha Bank, CAB Money Market, Interest at .15% Per Annum, Maturity on Demand	-	4,084
Bank of America, Non-Interest Bearing Checking Account	-	42,974
Bank of America, Business Investment Account, Interest at .02% Per Annum, Maturity on Demand	-	42,026
	\$ 139,844	\$ 493,064

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 4 - CONCENTRATION OF CREDIT RISK

Carnelian Woods Townhouse Association maintains balances at banks in excess of Federal Deposit Insurance Corporation (FDIC) coverage. Funds on deposit with Bank of America totaled \$116,592, with Wells Fargo Bank totaled \$250,000, and with Mutual of Omaha Bank totaled \$206,065 at September 30, 2016, and were fully insured under FDIC. The total amount of uninsured deposits at September 30, 2016 amounted to \$60,251 and were held at Wells Fargo Bank.

NOTE 5 - INCOME TAXES

The State of California granted the Association tax exempt status effective October 1, 1979 and, accordingly, for state purposes the Association pays taxes on net nonexempt income only, providing excess revenues over expenses of the operating fund are credited or returned to homeowners in the following year. Although the federal government does not grant tax exempt status to homeowners associations, similar rules apply.

For Federal reporting purposes, the Association is either taxed pursuant to Section 528 of the Internal Revenue Code or Section 277 of the Internal Revenue Code.

If certain requirements are met, a homeowners association can elect on a year to year basis, to be taxed pursuant to Section 528 at a flat Federal rate of 30 percent on income received, with the exclusion of exempt function income (dues), less expenses paid, with the exception of expenses relating to exempt function income.

A homeowners association can also be taxed pursuant to Section 277 of the Code, with all items of income and expense as allowed by Section 277, as a regular corporation.

For the tax year ended September 30, 2016, the election to be taxed pursuant to Section 528 has been made, and the Association was taxed at a flat Federal rate of 30 percent, with the exclusion of exempt function income and expenses relating to the exempt income.

Tax accrual and related expense are as follows:

	Operating Fund	Capital Replacement Fund	Total
Income Tax Expense			
Federal	\$ -	\$ -	\$ -
State	-	-	-
	\$ -	\$ -	\$ -
Provision for Income Tax	\$ -	\$ -	\$ -
Paid			(1,454)
Prepaid - net			\$ 1,454

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2016

NOTE 6 - NOTES PAYABLE

Notes payable consist of the following:

Mutual of Omaha Bank, \$2,000,000 term loan, to be repaid over 180 months at 4.51% interest, renewable every 5 years. The loan is an interest only loan during the draw period. The interest payments are made monthly to Mutual of Omaha Bank. The draw period ended February 27, 2016. After February 27, 2016, principal and interest due shall be payable over 156 successive monthly payments of principal and interest. The initial interest is fixed for 60 months at 4.51% interest in effect on February 13, 2014. The interest rate may change on February 27, 2019, and again on February 27, 2024. On these dates, the interest rate will be re-set to an annual percentage rate equal to the greater of 4.50% or the 5 year U.S. Treasury Constant Maturity rate, plus 3.00%. The note is collateralized by the Association's rights to levy and collect regular and special assessments.

\$1,889,788

\$1,889,788

Principal maturities of the notes payable during the next five years are as follows:

Year Ending September 30,	
2017	\$ 117,334
2018	122,626
2019	128,156
2020	133,936
2021	139,976
Thereafter	<u>1,247,760</u>
	<u><u>\$1,889,788</u></u>

Interest expense was \$89,252 for the year ended September 30, 2016.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2016

NOTE 7 - RESTRICTED FUND CHARGES/TRANSFERS

During the year ended September 30, 2016 the following charges and/or transfers occurred in the restricted fund:

Purchases of Fixed Assets	\$ -
Net Transfers	379,275
	<hr/>
TOTAL	\$ 379,275
	<hr/> <hr/>

NOTE 8 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Furniture and equipment	\$ 89,364
Transportation equipment	213,066
Leasehold improvements	2,667,731
	<hr/>
Accumulated depreciation	(1,143,579)
	<hr/>
TOTAL	\$1,826,582
	<hr/> <hr/>

NOTE 9 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$579,678 at September 30, 2016, are held in separate accounts or segregated and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the capital replacement fund.

The funding program was based on a study performed by the Board of Directors in 1993, with annual updates from 1996 through 1999, and recent updates in 2009, 2012 and 2014 to estimate the remaining useful lives and the replacement costs of the common property components. Some of the estimates were obtained from licensed contractors who inspected the property.

The Association is funding for 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.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2016

NOTE 10 - SPECIAL ASSESSMENTS

During the annual meeting on September 14, 2013, the Association voted in favor of the new \$1,500,000 special assessment to re-side the exterior of the residential units with a fire retardant, pre-painted panel. The estimated cost to do the project is \$1,500,000. On February 21, 2016 the existing loan for the lodge, with a current balance of \$425,509 was consolidated with a new loan secured with Mutual of Omaha Bank in the total amount of \$2,000,000 at 4.51% interest for a period of 15 years, renewable every 5 years. The special assessment vote to replace the unit siding passed by a vote of 70/16. The collection of the special assessment in the amount of \$417 per quarter per unit began on April 1, 2015. As of the year ended September 30, 2016, expenses for the re-siding project in the amount of approximately \$1,628,000 were incurred.

NOTE 11 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through June 15, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE
 MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 SEPTEMBER 30, 2016

The Association's board of directors conducted a study in 1993, with annual updates from 1996 through 1999, and in 2007 and 2009 to estimate the remaining useful lives and the replacement costs of the components of common property.

In December 2012, an "Update With-Site-Visit" Reserve Study was performed by Association Reserves, Inc. based on a site inspection in October 2012.

In December 2014, a new "Update No-Site-Visit" Reserve Study was performed by Association Reserves, Inc. based on a prior Report prepared by Association Reserves, Inc. in December 2012. The following information presented in the "Executive Summary" is based on the study performed by Association Reserves, Inc. and presents significant information about the components of common property.

Subsequent to the fiscal year ended September 30, 2016, the Association's board of directors reviewed the information provided in the "Executive Summary" and prepared an update to estimate the remaining useful lives and the replacement costs of the components of common property through the fiscal year ending September 30, 2022. Some of the estimates were obtained from licensed contractors who inspected the property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Certain estimated current replacement costs reflect recently revised figures to take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

Components	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost
Interiors	0 to 10	\$ 44,077
Exteriors	0 to 8	1,108,173
Recreation	0 to 8	53,091
Heavy equipment	0 to 7	134,216
		<u>\$ 1,339,557</u>

See accompanying auditors' report and notes to financial statements.

EXECUTIVE SUMMARY

Association: Carnelian Woods Townhouse Assoc. #: 17345-3
Association
Location: Carnelian Bay, CA 96140
of Units: 120
Report Period: October 1, 2014 through September 30, 2015

Results as-of 10/1/2014:

Projected Starting Reserve Balance:	\$425,134
Fully Funded Reserve Balance:	\$1,153,507
Average Reserve Deficit Per Unit:	\$6,070
Percent Funded:	36.9%
Recommended 2014/2015 Monthly Reserve Contribution:	\$15,124
Recommended 2014/2015 Special Assessment for Reserves:	\$0
Most Recent Reserve Contribution Rate:	\$15,124

Economic Assumptions:

Net Annual "After Tax" Interest Earnings Accruing to Reserves.....1.00%
Annual Inflation Rate3.00%

- This is an "Update No-Site-Visit" Reserve Study, based on a prior Report prepared by Association Reserves, Inc for your 2013/2014 Fiscal Year. No site inspection was performed as part of this Reserve Study. This Reserve Study was prepared by Sean Kargari, a credentialed Reserve Specialist (RS #115).
- Because your Reserve Fund is between 30%-70% Funded, at 36.9% Funded, this represents a fair Reserve position. In comparison, associations that are above 70% Funded are considered to be in a strong Reserve position and are less likely to incur Reserve cash-flow deficiencies and special assessments.
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is to maintain your current Reserve contributions for this fiscal year.
- Your multi-year Funding Plan is designed to gradually bring you to the 100% level, or "Fully Funded".

See accompanying auditors' report and notes to financial statements

EXECUTIVE SUMMARY TABLE 1

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
Interiors					
303	Furnace (A) - Replace	30	27	\$6,000	\$13,328
303	Furnace (B) - Replace	30	29	\$6,000	\$14,139
601	Carpet - Replace	10	0	\$8,400	\$11,289
803	Water Heater - Replace	10	8	\$7,250	\$9,184
903	Furniture - Partial Replace	5	0	\$3,200	\$3,710
904	Kitchen - Remodel	30	0	\$32,000	\$77,672
904	Kitchen Appliances - Partial Replace	3	0	\$1,750	\$1,912
905	Sauna Heater (Men's) - Replace	10	6	\$850	\$1,015
905	Sauna Heater (Women's) - Replace	10	5	\$850	\$985
906	Sauna Rooms - Refurbish	20	15	\$7,200	\$11,217
909	Bathrooms - Remodel	12	6	\$7,200	\$8,597
Exteriors					
103	Pool Deck - Replace	40	37	\$68,000	\$202,995
109	Clubhouse Deck - Replace	25	20	\$100,500	\$181,514
110	Unit Balconies - Reseal/Repair	4	0	\$60,000	\$67,531
201	Asphalt - Resurface Phase 1	20	6	\$199,000	\$237,616
201	Asphalt - Resurface Phase 2	20	7	\$141,500	\$174,027
201	Asphalt Walkways - Maintain	5	0	\$9,000	\$10,433
202	Asphalt - Seal/Repair Phase 1	4	3	\$19,350	\$21,144
202	Asphalt - Seal/Repair Phase 2	4	3	\$13,850	\$15,134
320	Pole Lights - Replace	20	19	\$33,000	\$57,866
404	Chaise Lounges - Restrap	5	0	\$4,100	\$4,753
404	Metal Patio Furniture - Replace	10	4	\$6,400	\$7,203
409	Wood Benches - Replace	10	5	\$2,050	\$2,377
503	Iron Fence - Replace	30	26	\$5,150	\$11,106
505	Wood Fence - Replace	15	9	\$15,750	\$20,550
1120	Residential Fiber Cement Siding - Replace	40	40	\$1,600,000	\$5,219,260
1121	Clubhouse Siding/Trim - Repair/Replace	30	25	\$44,000	\$92,126
1308	Metal Roofs - Replace	40	13	\$920,500	\$1,351,785
1402	Entry Monument Sign - Refurbish	12	8	\$2,600	\$3,294
1808	Forestry - Logging Project	4	0	\$6,000	\$6,753
1808	Forestry - Mastication Project	4	3	\$6,000	\$6,556
1811	Drainage System - Maintain/Refurbish	4	0	\$4,800	\$5,402
1812	Under-Unit Soffits - Repair	10	7	\$23,500	\$28,902
Recreation					
405	Play Equipment - Replace	20	19	\$6,800	\$11,924
405	Tot-Lot - Refurbish	20	17	\$4,100	\$6,777
1202	Pool - Resurface	25	23	\$27,000	\$53,287
1203	Spas - Replace/Replumb	20	17	\$22,000	\$36,363
1207	Pool Filters - Replace	12	9	\$10,450	\$13,635
1207	Spa Filters - Replace	12	9	\$2,100	\$2,740
1208	Pool Heaters - Replace	10	9	\$14,400	\$18,789
1208	Spa Heaters - Replace	10	7	\$6,000	\$7,379
1210	Pool Pumps - Replace	10	7	\$2,700	\$3,321

See accompanying auditors' report and notes to financial statements

EXECUTIVE SUMMARY TABLE 2

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost	Future Average Cost
1210	Spa Pumps - Replace	10	7	\$5,350	\$6,580
1217	Pool Cover/Reel - Replace	30	27	\$14,500	\$32,209
1210	Pool Sweeper - Replace	8	7	\$7,000	\$8,609
1604	Tennis Court - Resurface	10	3	\$20,000	\$21,855
1620	Bocce Ball Court - Resurface	20	17	\$3,600	\$5,950
Heavy Equipment					
1810	Loader - Rebuild	12	7	\$16,500	\$20,293
1810	Snow Blowers (2009) - Replace	5	0	\$6,400	\$7,419
1810	Snow Blowers (2011) - Replace	5	2	\$6,400	\$6,790
1810	Snow Plows - Replace	5	3	\$6,700	\$7,321
1810	Tractor (2010) - Replace	12	8	\$27,000	\$34,203
1810	Tractor (2013) - Replace	12	0	\$22,000	\$31,367
1810	Trailer - Replace	15	11	\$3,100	\$4,291
1810	Utility Cart - Replace	6	4	\$1,700	\$1,913
1810	Work Trucks - Replace	10	8	\$72,000	\$91,207
1812	Loader Plow - Replace	6	5	\$4,900	\$5,680
57	Total Funded Components				

Note 1: a Useful Life of "N/A" means a one-time expense, not expected to repeat.

Note 2: highlighted line items are expected to require attention in the initial year.

See accompanying auditors' report and notes to financial statements

CARNELIAN WOODS TOWNHOUSE ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE
 MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 SEPTEMBER 30, 2016

COMPONENT	USEFUL LIFE	REMAINING USEFUL LIFE	2017	2018	2019	2020	2021	2022	TOTAL
Interiors									
601 Carpet-replace	10	10	8,381						8,381
803 Water heaters-lodge	10	8				9,394			9,394
303 Lodge Furnace-B	30	0							-
903 Furniture-replace	5	1	3,183			3,690			6,873
904 Kitchen-remodel	30	27							-
904 Kitchen appliances	3	1		1,790					1,790
303 Lodge Furnace-A	30	0							-
905 Sauna (men)	10	6				984		1,955	2,939
905 Sauna (women)	10	5			955				955
906 Sauna rooms (refurbish)	20	15							-
909 Bathrooms-remodel	12	6				8,609			8,609
			5,136						5,136
			<u>16,700</u>	<u>1,790</u>	<u>955</u>	<u>22,677</u>	<u>-</u>	<u>1,955</u>	<u>44,077</u>
Exteriors									
103 Pool deck replace	40	37							-
109 Lodge deck replace	25	20							-
110 Unit balconies-reseal/repair	4	4	56,000	26,000				27,000	109,000
201 Asphalt Walkways-maintain	5	0		10,149					10,149
202 Asphalt-reseal/repair phase 1	4	0		22,423				25,248	47,671
202 Asphalt-reseal/repair phase 2	4	0		15,588				17,544	33,132
201 Asphalt resurface phase 1	20	6				237,366			237,366
201 Asphalt resurface phase 2	20	7					174,181		174,181
320 Pole lights-replace	20	8			23,720				23,720
404 Chaise lounges-restrap	5	0			4,776				4,776
404 Metal Patio Furniture	10	4							-
409 Wood benches-replace	10	4							-
503 Iron fence replace	30	26							-
505 Wood fence-pool	15	9							-
1116 Wood surfaces-repaint	7	2			296,450				296,450
1121 Wood siding/trim-repair replace	7	2			96,800			3,262	100,062
1121 Lodge siding	30	25							-
1308 Metal Roofs-replace	40	13							-
1402 Entry sign-refurbish	12	8							-
1808 Forestry-logging project	4	0					7,600		7,600
1808 Forestry-mastication project	4	4	15,000	6,956				7,828	29,784
1811 Drainage system-maintain	4	0					5,780		5,780
1812 Unit soffits-refurbish	10	7					28,502		28,502
			<u>71,000</u>	<u>81,116</u>	<u>421,746</u>	<u>237,366</u>	<u>216,063</u>	<u>80,882</u>	<u>1,108,173</u>
Recreation									
405 Play equipment replace	20	0							-
405 Tot lot-refurbish	20	3							-
1202 Pool resurface	25	23							-
1207 Pool filters-replace	12	9						13,708	13,708
1208 Pool heaters-replace	10	0							-
1203 Spas-replace-replumb	20	17							-
1208 Spa heaters-replace	10	7					7,424		7,424
1207 Spa filters	12	9							-
1210 Spa pumps	10	7							-
1210 Pool pumps replace	10	8					3,294		3,294
1217 Pool cover/reel-replace	30	27							-
1604 Tennis court- resurface	10	3	21,947						21,947
1605 Tennis court windscreens	10	4			6,718				6,718
1620 Bocce Court	20	17							-
			<u>21,947</u>	<u>-</u>	<u>6,718</u>	<u>-</u>	<u>10,718</u>	<u>13,708</u>	<u>53,091</u>
Heavy Equipment									
1810 Loader-rebuild	12	7					20,268		20,268
1810 snow blowers replace	4	0		6,806				7,888	14,694
1810 snow blowers replace	4	1			7,152				7,152
1810 snow plow-replace	7	4		6,668					6,668
1810 snow plow-replace	7	6				7,835			7,835
1810 Tractor(2010) replace	12	8						33,924	33,924
1810 Tractor (2013) Purchase	12	11							-
1810 Trailer-replace	15	11							-
1810 Utility Cart	6	4		1,855					1,855
1810 Work trucks replace	7	4							-
1810 Work trucks replace	7	6				41,820			41,820
			<u>-</u>	<u>15,329</u>	<u>7,152</u>	<u>49,655</u>	<u>20,268</u>	<u>41,812</u>	<u>134,216</u>
Total annual expenditures			<u>109,647</u>	<u>98,235</u>	<u>436,571</u>	<u>309,698</u>	<u>247,049</u>	<u>138,357</u>	<u>1,339,557</u>
Changes in reserves									
FISCAL YEAR ENDING SEPTEMBER 30			2017	2018	2019	2020	2021	2022	
Beginning balance			579,678	665,900	769,828	540,228	443,146	414,884	
Dues allocated			192,556	198,333	204,283	210,411	216,723	223,225	
Less annual expenditures			109,647	98,235	436,571	309,698	247,049	138,357	
Balance			662,587	765,998	537,539	440,941	412,820	499,753	
Interest net 5% after tax			3,313	3,830	2,688	2,205	2,064	2,499	
FUND BALANCE AT SEPTEMBER 30			<u>665,900</u>	<u>769,828</u>	<u>540,228</u>	<u>443,146</u>	<u>414,884</u>	<u>502,251</u>	

See accompanying auditors' report and notes to financial statements.