

CARNELIAN WOODS TOWNHOUSE ASSOCIATION

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2019

McGUIGAN & McGUIGAN  
CERTIFIED PUBLIC ACCOUNTANTS  
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BURLINGAME, CA 94010

CARNELIAN WOODS TOWNHOUSE ASSOCIATION

INDEX TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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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, 2019, 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, 2019, 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*McQuigan & McQuigan*

Burlingame, CA  
June 15, 2020

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
BALANCE SHEET  
September 30, 2019

	<u>Operating Fund</u>	<u>Capital Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents (Note 3)	\$ 40,456	\$ 512,746	\$ 553,202
Interfund receivable/payable	(231,068)	231,068	-
Accounts receivable	18,372	-	18,372
Prepaid insurance	2,839	-	2,839
Prepaid income taxes	1,454	-	1,454
Total Current Assets	<u>(167,947)</u>	<u>743,814</u>	<u>575,867</u>
Property & Equipment (At cost)			
Land	313,336	-	313,336
Furniture & equipment (Note 8)	3,322,272	-	3,322,272
Accumulated depreciation	(1,893,069)	-	(1,893,069)
Net Property & Equipment	<u>1,742,539</u>	<u>-</u>	<u>1,742,539</u>
Intangible Assets			
Loan fees	6,935	-	6,935
Accumulated amortization	(2,580)	-	(2,580)
Net Intangible Assets	<u>4,355</u>	<u>-</u>	<u>4,355</u>
Total Assets	<u>\$1,578,947</u>	<u>\$ 743,814</u>	<u>\$2,322,761</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 21,107	\$ -	\$ 21,107
Dues paid in advance	22,826	-	22,826
Security deposit (Note 11)	11,410	-	11,410
Notes payable (Note 6)	130,440	-	130,440
Total Current Liabilities	<u>187,283</u>	<u>-</u>	<u>187,283</u>
Long-term Liabilities			
Notes payable (Note 6)	1,399,186	-	1,399,186
Total Long-term Liabilities	<u>1,399,186</u>	<u>-</u>	<u>1,399,186</u>
Fund Balances	<u>(7,522)</u>	<u>743,814</u>	<u>736,292</u>
Total Liabilities and Fund Balances	<u>\$1,578,947</u>	<u>\$ 743,814</u>	<u>\$2,322,761</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, 2019

	Operating Fund	Capital Replacement Fund	Total
REVENUES (Schedule)	\$ 891,760	\$ 422,423	\$1,314,183
EXPENSES (Schedule)	1,296,200	-	1,296,200
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FROM OPERATIONS	(404,440)	422,423	17,983
NON-OPERATING INCOME (LOSS) Interest income	-	273	273
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE PROVISION FOR TAXES	(404,440)	422,696	18,256
Income tax provision (Note 5)	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(404,440)	422,696	18,256
INTERFUND TRANSFERS (Note 7)	319,167	(319,167)	-
NET INCREASE (DECREASE) IN FUND BALANCES	(85,273)	103,529	18,256
FUND BALANCES AT SEPTEMBER 30, 2018	77,751	642,283	718,036
FUND BALANCES AT SEPTEMBER 30, 2019	\$ (7,522)	\$ 743,814	\$ 736,292

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
 SCHEDULE OF REVENUES AND EXPENSES  
 Year Ended September 30, 2019

	<u>Operating Fund</u>	<u>Capital Replacement Fund</u>
<b>REVENUES</b>		
Dues and assessments	\$ 440,004	\$ 204,276
Special assessments (Note 10)	-	201,780
Forestry grant	-	16,367
Homeowner services	396,092	-
Late charges	1,358	-
Rental income	30,230	-
Transfer fees	2,445	-
Vending income	377	-
Key card income	16,710	-
Miscellaneous income	50	-
Insurance Reimbursements - storm damage	4,494	-
	<u>\$ 891,760</u>	<u>\$ 422,423</u>
<b>EXPENSES</b>		
Bank charges	\$ 167	-
Bad debts	2,287	-
Depreciation	202,197	-
Amortization	462	-
Employee benefits	13,735	-
Insurance - general	48,081	-
Insurance - workers' compensation	5,680	-
Interest expense	80,585	-
Office supplies	11,234	-
Loan fees	1,250	-
Payroll taxes	39,100	-
Payroll service fees	2,066	-
Professional fees	18,446	-
Repairs and maintenance	87,433	-
Pavilion expense	3,713	-
Snow removal	8,227	-
Homeowner services costs	261,228	-
Salaries and wages	368,200	-
Security	1,572	-
Taxes and licenses	11,768	-
Telephone	4,445	-
Truck expense	33,543	-
Utilities	885,635	-
Directors and homeowners meeting	5,339	-
	<u>\$1,296,200</u>	<u>\$ -</u>

See accompanying auditors' report and notes to financial statements.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
STATEMENT OF CASH FLOWS  
Year Ended September 30, 2019

	Operating Fund	Capital Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over expenses	\$(404,440)	\$ 422,696	\$ 18,256
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:			
Depreciation	202,198	-	202,198
Amortization	463	-	463
(Increase) decrease in:			
Interfund receivable/payable	30,523	(30,523)	-
Accounts receivable	15,241	-	15,241
Prepaid insurance	521	-	521
Increase (decrease) in:			
Accounts payable	5,907	-	5,907
Accrued payroll & vacation	22,826	-	22,826
Dues paid in advance	7,589	-	7,589
Security deposit	(3,500)	-	(3,500)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(122,672)</b>	<b>392,173</b>	<b>269,501</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets	(77,754)	-	(77,754)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(77,754)</b>	<b>-</b>	<b>(77,754)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net interfund transfers	319,167	(319,167)	-
Net increase (decrease) in loans	(123,216)	-	(123,216)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>195,951</b>	<b>(319,167)</b>	<b>(123,216)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(4,475)</b>	<b>73,006</b>	<b>68,531</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>44,493</b>	<b>439,740</b>	<b>484,671</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 40,456</b>	<b>\$ 512,746</b>	<b>\$ 553,202</b>
<b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ 80,585	\$ -	\$ 80,585

See accompanying auditors' report and notes to financial statements.



CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2019

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 \$1,365 per quarter, effective for the fiscal year ending September 30, 2019, of which approximately 72 percent is allocated to the operating fund and 27 percent to the capital replacement fund.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2019

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, 2019, the Association's regular dues assessment was \$1,365 per quarter per owner. Annual budgets and owners' assessments are determined by the Board of Directors. As of October 1, 2019 the association's regular dues assessment will remain the same at \$1,365 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, 2019

NOTE 3 - CASH AND CASH EQUIVALENTS

As of September 30, 2019, 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	\$ 1,053	\$ -
Wells Fargo Bank, Non-Interest Bearing Checking Account	39,403	-
Wells Fargo Bank, High Yield Savings, Interest at .00% Per Annum, Maturity on Demand	-	2
Wells Fargo Bank, High Yield Savings, Interest at .06% Per Annum, Maturity on Demand	-	255,715
Bank of America, Certificate of Deposit, Interest at .04% Per Annum, Maturity Date of July 9, 2020	-	16,819
Mutual of Omaha Bank, CAB Now Account, Interest at .05% Per Annum, Maturity on Demand	-	221,287
Mutual of Omaha Bank, CAB Money Market, Interest at .40% Per Annum, Maturity on Demand	-	4,114
Bank of America, Non-Interest Bearing Checking Account	-	14,809
Bank of America, Business Investment Account, Interest at .00% Per Annum, Maturity on Demand	-	-
	\$ 40,456	\$ 512,746

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2019

NOTE 4 - CONCENTRATION OF CREDIT RISK

Carnelian Woods Townhouse Association maintains balances at banks within the Federal Deposit Insurance Corporation (FDIC) coverage. Funds on deposit with Bank of America totaled \$31,628, with Wells Fargo Bank totaled \$250,000, and with Mutual of Omaha Bank totaled \$225,401 at September 30, 2019, and were fully insured under FDIC. The total amount of uninsured deposits at September 30, 2019 amounted to \$46,173 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, 2019, 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, 2019

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 was an interest only loan during the draw period. The interest payments were made monthly to Mutual of Omaha Bank. The draw period ended February 27, 2016. After February 27, 2016, principal and interest due became payable over 156 successive monthly payments of principal and interest. The initial interest was fixed for 60 months at 4.51% interest in effect on February 13, 2014. The interest rate was set to change on February 27, 2019, and again on February 27, 2024. On these dates, the interest rate would 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.

With an expected increase in the Treasury Constant, the board investigated other loan methods for the remainder of the loan. After negotiation with Mutual of Omaha Bank, the loan has been modified on February 21, 2019 to a fixed rate of 5.31% with a ten year term. Carnelian Woods Townhouse Association shall pay Mutual of Omaha Bank the principal and interest due hereunder by making 120 successive monthly payments of principal and interest, commencing with the first payment on March 27, 2019 in the amount of \$17,223.36 (or such other amount as Mutual of Omaha Bank may from time to time determine pursuant to the terms of this Note), and continuing monthly thereafter until the whole of said principal sum and interest shall have been fully paid. If not sooner paid, the entire remaining unpaid principal balance, together with accrued and unpaid interest thereon, shall be due and payable on February 27, 2029.

\$1,529,626

\$1,529,626

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

Year Ending September 30,	
2020	\$ 130,440
2021	137,367
2022	144,661
2023	152,341
2024	160,432
Thereafter	804,385
	<u>\$1,529,626</u>

Interest expense was \$80,585 for the year ended September 30, 2019.

CARNELIAN WOODS TOWNHOUSE ASSOCIATION  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2019

NOTE 7 - RESTRICTED FUND CHARGES/TRANSFERS

During the year ended September 30, 2019 the following charges and/or transfers occurred in the restricted fund:

Purchases of Fixed Assets	\$ -
Net Transfers	319,167
	<hr/>
TOTAL	\$ 319,167
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NOTE 8 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following:

Furniture and equipment	\$ 100,846
Transportation equipment	221,002
Leasehold improvements	2,971,889
Pavilion improvements	28,535
	<hr/>
Accumulated depreciation	3,322,272 (1,893,069)
	<hr/>
TOTAL	\$1,429,203
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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 \$743,814 at September 30, 2019, 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, 2014 and 2017, 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, 2019

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, 2014 the existing loan for the lodge, with a 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. Due to modification of the loan with Mutual of Omaha Bank on February 21, 2019, the special assessment was changed to \$438 per quarter per unit beginning on January 1, 2019. As of the year ended September 30, 2019, expenses for the re-siding project in the amount of approximately \$1,652,842 were incurred.

NOTE 11 - SALES PAVILION

Carnelian Woods Townhouse Association recently completed a remodel of the sales pavilion to prepare the unit for residential rental. Current construction costs for the remodel come from the Association's operating and capital reserves. Funds generated from the Sheriff/Pavilion lawsuit in the amount of \$71,000, which are currently deposited in the Wells Fargo Bank pavilion savings account, will be used to replenish the Association's operating and capital reserves. Any remaining funds in the pavilion savings account may be used to buy down existing loan debt or increase the reserve balance.

Carnelian Woods Townhouse Association entered into a lease agreement to lease the pavilion as a residential rental. The current lease commenced on October 1, 2018 for a term of one year, with an option to renew the lease for a one year period. The rent is \$2,400 per month, which includes all utilities except gas. The Association also provided snow removal in the winter and defensive space around the building in the spring, such as raking, removal of dead trees, etc. The Association received a total of \$1,500 for the security deposit.

NOTE 12 - INSURANCE REIMBURSEMENTS FOR STORM DAMAGE

The Association received \$199,740 in June 2017 and \$4,494 in the current year for insurance reimbursements from Farmer's Insurance Company in June 2017 for storm damage related to several units. A special account has been setup to record the expenses related to unit damage, repair, etc. As of September 30, 2019, the total expense incurred was \$57,487. The repairs have continued after September 30, 2019. The total estimated expenses will not be over the insurance reimbursement amount received.

NOTE 13 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through June 15, 2020, 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, 2019

The Association's board of directors conducted a study in 1993, with annual updates from 1996 through 1999, and in 2009, 2012, 2014 and 2017 to estimate the remaining useful lives and the replacement costs of the components of common property.

In May 2017, a new Update "With-Site-Visit" Reserve Study was performed by Association Reserves, Inc. based on a prior Report prepared by Association Reserves, Inc. in December 2015. 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, 2017, 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, 2024. 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 9	\$ 11,000
Exteriors	0 to 5	600,000
Recreation	0 to 24	36,000
Heavy equipment	0 to 8	127,000
		<u>\$ 774,000</u>

See accompanying auditors' report and notes to financial statements.

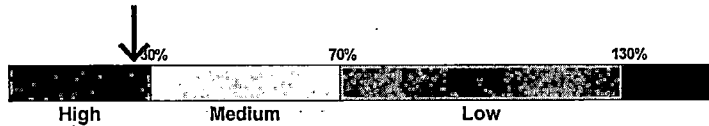
EXECUTIVE SUMMARY

Association: Carnelian Woods Townhouse Association Assoc. #: 17345-4  
 Location: Carnelian Bay, CA # of Units:120  
 Report Period: October 1, 2017 through September 30, 2018

*Findings/Recommendations as-of: October 1, 2017*

Project Starting Reserve Balance .....	\$521,549
Currently Fully Funding Reserve Balance .....	\$1,933,917
Average Reserve Deficit (Surplus) Per Unit .....	\$11,770
Percent Funded .....	27.0 %
Recommended 2017/18 "Monthly Fully Funding Contributions" .....	\$18,100
Recommended 2017/18 Special Assessments for Reserves .....	\$0
2016/17 Contribution Rate .....	\$16,046

Reserves % Funded: 27.0%



Special Assessment Risk:

*Economic Assumptions:*

Net Annual "After Tax" Interest Earnings Accruing to Reserves .....1.00 %  
 Annual Inflation Rate .....3.00 %

- This is an Update "With-Site-Visit" Reserve Study.
- The information in this Reserve Study is based on our site inspection on 5/18/2017.
- This Reserve Study was prepared by a credentialed Reserve Specialist (RS).
- Because your Reserve Fund is at 27.0 % Funded, this means the association's special assessment & deferred maintenance risk is currently High.
- Your multi-year Funding Plan is designed to gradually bring you to the 100% level; or "Fully Funded".
- Based on this starting point, your anticipated future expenses, and your historical Reserve contribution rate, our recommendation is for you to increase your Reserve contributions.
- No assets appropriate for Reserve designation were excluded.

See accompanying auditors' report and notes to financial statements

EXECUTIVE SUMMARY TABLE 1

17345-4

# Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
<b>Interiors</b>			
303 Furnace (A) - Replace	30	24	\$4,870
303 Furnace (B) - Replace	30	26	\$4,870
601 Carpet - Replace	10	0	\$11,000
803 Water Heater - Replace	10	5	\$8,340
903 Furniture - Partial Replace	5	0	\$3,475
904 Kitchen - Remodel	30	28	\$27,500
904 Kitchen Appliances - Partial Replace	3	0	\$1,735
905 Sauna Heater (Men's) - Replace	10	3	\$930
905 Sauna Heater (Women's) - Replace	10	2	\$930
906 Sauna Rooms - Refurbish	20	12	\$13,200
909 Bathrooms - Remodel	12	4	\$8,110
<b>Exteriors</b>			
103 Pool Deck - Replace	40	34	\$76,500
109 Clubhouse Deck - Replace	25	17	\$113,300
110 Unit Balconies - Reseal/Repair	4	2	\$95,000
201 Asphalt - Resurface Phase 1	25	8	\$223,500
201 Asphalt - Resurface Phase 2	25	9	\$159,000
201 Asphalt Walkways - Maintain	5	3	\$10,095
202 Asphalt - Seal/Repair Phase 1	4	2	\$22,400
202 Asphalt - Seal/Repair Phase 2	4	2	\$16,050
305 Security System - Replace	10	3	\$9,770
320 Pole Lights - Replace	20	5	\$66,500
404 Chaise Lounges - Re-strap	5	0	\$4,635
404 Metal Patio Furniture - Replace	10	2	\$7,240
409 Wood Benches - Replace	10	2	\$2,260
503 Iron Fence - Replace	30	23	\$5,740
505 Wood Fence - Replace	15	6	\$17,700
1121 Res Fiber Cement Siding - Replace	40	37	\$1,600,000
1133 Clubhouse Siding/Trim - Repair/Repl	40	37	\$49,250
1308 Metal Roofs - Replace	40	10	\$1,340,000
1402 Entry Monument Sign - Refurbish	12	5	\$2,895
1808 Forestry - Logging Project	1	0	\$10,320
1808 Forestry - Mastication Project	5	2	\$6,950
1811 Drainage System - Maintain/Refurb	4	0	\$5,445
1812 Under-Unit Soffits - Repair	10	4	\$26,050
<b>Recreation</b>			
405 Play Equipment - Replace	20	0	\$6,660
405 Tot-Lot - Refurbish	20	14	\$4,630
1202 Pool - Resurface	25	20	\$30,150
1203 Spas - Replace/Replumb	20	14	\$24,900
1207 Pool Filters - Replace	12	6	\$11,800
1207 Spa Filters - Replace	12	6	\$2,310
1208 Pool Heaters - Partial Replace	6	0	\$8,110
1208 Spa Heaters - Replace	10	9	\$6,835
1210 Pool Pumps - Replace	10	4	\$3,005

See accompanying auditors' report and notes to financial statements

**EXECUTIVE SUMMARY TABLE 2**

#	Component	Useful Life (yrs)	Rem. Useful Life (yrs)	Current Average Cost
1210	Spa Pumps - Replace	10	4	\$6,025
1212	Pool Chlorinators - Replace	10	8	\$5,225
1217	Pool Cover/Reel - Replace	30	24	\$16,200
1602	Tennis Court - Remove & Replace	40	2	\$125,000
1604	Tennis Court - Resurface	10	2	\$22,650
1620	Bocce Ball Court - Resurface	20	14	\$4,055
<b>Heavy Equipment</b>				
1810	Loader - Rebuild	20	19	\$41,250
1810	Snow Blower (2017) - Replace	5	4	\$3,650
1810	Snow Blowers (2018) - Replace	5	0	\$6,605
1810	Snow Blowers (2019) - Replace	5	1	\$10,750
1810	Snow Blowers (tractor) - Replace	6	1	\$7,250
1810	Snow Plows - Replace	6	1	\$7,535
1810	Tractor (2010) - Replace	12	5	\$30,150
1810	Trailer - Replace	15	8	\$3,705
1810	Utility Cart - Replace	6	3	\$4,275
1810	Work Truck (2015) - Replace	10	7	\$40,000
1810	Work Truck (Older) - Replace	10	3	\$40,000
2628	Storage Container (2011) - Replace	20	14	\$6,000
2628	Storage Container (2017) - Replace	20	19	\$3,000
<b>62 Total Funded Components</b>				

Note 1: Highlighted line items are expected to require attention in this 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, 2019

COMPONENT	USEFUL LIFE	REMAINING USEFUL LIFE	2020	2021	2022	2023	2024	2025	TOTAL
<b>Interiors</b>									
601 Carpet-replace	10	9			11,000				11,000
803 Water heaters-lodge	10	6							-
303 Lodge Furnace-B	30	0							-
903 Furniture-replace	5	0							-
904 Kitchen-remodel	30	25							-
904 Kitchen appliances	3	0							-
303 Lodge Furnace-A	30	0							-
905 Sauna (men)	10	4							-
905 Sauna (women)	10	3							-
905 Sauna rooms (refurbish)	20	13							-
909 Bathrooms-remodel	12	4							-
					11,000				11,000
<b>Exteriors</b>									
103 Pool deck replace	40	35							-
109 Lodge deck replace	25	18							-
110 Unit balconies-reseal/repair	4	4	40,000	40,000	40,000				120,000
201 Asphalt Walkways-maintain	5	4							-
202 Asphalt-reseal/repair phase 1	4	4	30,000	30,000	30,000	30,000	30,000	30,000	180,000
202 Asphalt-reseal/repair phase 2	4	3							-
201 Asphalt resurface phase 1	20	4							-
201 Asphalt resurface phase 2	20	5							-
305 Security System - replace	5	0							-
320 Pole lights-replace	20	6							-
404 Chaise lounges-restrap	5	0							-
404 Metal Patio Furniture	10	2							-
409 Wood benches-replace	10	2							-
503 Iron fence replace	30	24							-
505 Wood fence-pool	15	7							-
601									-
1116 Wood surfaces-repaint	7	0							-
1121 Wood siding/trim-repair replace	7	0							-
1121 Lodge siding	30	23							-
1308 Metal Roofs-replace	40	11							-
1402 Entry sign-refurbish	12	6							-
1808 Forestry-logging project	4	4	20,000	20,000	20,000	20,000	20,000	20,000	120,000
1808 Forestry-mastication project	4	3							-
1811 Drainage system-maintain	4	4	25,000	25,000	25,000	25,000	25,000	2,500	127,500
1812 Unit soffits-refurbish	10	5	2,500	2,500	2,500	2,500	2,500	2,500	12,500
1812 Unit Entry Stairs and Landing	10	4				10,000	10,000	20,000	40,000
			115,000	117,500	117,500	87,500	87,500	75,000	600,000
<b>Recreation</b>									
405 Play equipment replace	20	0							-
405 Tot lot-refurbish	20	1							-
1202 Pool resurface	25	21	10,000						10,000
1207 Pool filters-replace	12	7							-
1208 Pool heaters-replace	10	0							-
1203 Spas-replace-replumb	20	15							-
1208 Spa heaters-replace	10	4							-
1207 Spa filters	12	6							-
1210 Spa pumps	10	4							-
1210 Pool pumps replace	10	5							-
1217 Pool cover/reel-replace	30	24	2,000	10,000				2,000	14,000
1602 Tennis court - remove & replace	15	13							-
1604 Tennis court- resurface	10	9	2,000	2,000	2,000	2,000	2,000	2,000	12,000
1605 Tennis court windscreens	10	1							-
1620 Bocce Court	20	14							-
			14,000	12,000	2,000	2,000	2,000	4,000	36,000
<b>Heavy Equipment</b>									
1810 Loader-rebuild	20	17							-
1810 Snow blowers (2017) replace	4	2							-
1810 Snow blowers (2018) replace	4	0							-
1810 Snow blowers (2019) replace	4	2							-
1810 Snow blowers replace	7	2						3,500	3,500
1810 Snow blowers (Truck) replace	7	2					7,500	7,500	15,000
1810 Snow plows - replace	7	3				3,500			3,500
1810 Tractor(2010) replace	12	5							-
1810 Tractor(2011) replace	12	4				60,000			60,000
1810 Tractor (2013) replace	12	8					40,000		40,000
1810 Trailer-replace	15	8							-
1810 Utility Cart	6	2				5,000			5,000
1810 Work trucks replace	7	1							-
1810 Work trucks replace	7	3							-
						68,500	47,500	11,000	127,000
<b>Total annual expenditures</b>			<b>129,000</b>	<b>129,500</b>	<b>130,500</b>	<b>158,000</b>	<b>137,000</b>	<b>90,000</b>	<b>774,000</b>
<b>Changes in reserves</b>									
<b>FISCAL YEAR ENDING SEPTEMBER 30</b>									
Beginning balance			2020	2021	2022	2023	2024	2025	
Dues allocated			743,814	823,185	908,610	999,800	1,070,343	1,169,073	
Less annual expenditures			204,276	210,404	216,716	223,218	229,914	236,812	
Balance			129,000	129,500	130,500	158,000	137,000	90,000	
Interest net .5% after tax			819,090	904,090	994,827	1,065,018	1,163,257	1,315,885	
FUND BALANCE AT SEPTEMBER 30			4,095	4,520	4,974	5,325	5,816	6,579	
			823,185	908,610	999,800	1,070,343	1,169,073	1,322,465	

See accompanying auditors' report and notes to financial statements.