

Eldorado Property Owners Association

(A California Nonprofit Corporation)

Financial Report

Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Eldorado Property Owners Association
Indian Wells, California

Report on the Financial Statements

We have audited the accompanying financial statements of Eldorado Property Owners Association (a California nonprofit corporation) (the Association), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues and expenses, 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 of 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 auditors consider internal control relevant to the Association'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 Association'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Eldorado Property Owners Association 2015 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements on page 14 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 consist 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, or 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.

Hutchinson and Bloodgood LLP

Glendale, California
October 18, 2016

ELDORADO PROPERTY OWNERS ASSOCIATION
(A California Nonprofit Corporation)

Balance Sheet

June 30, 2016

(With Comparative Totals as of June 30, 2015)

	Operating Fund	Replacement Fund	2016	2015
ASSETS				
Current Assets				
Cash (Notes 1 and 3)	\$ 316,541	\$ 94,825	\$ 411,366	\$ 486,811
Short term investments (Note 2)	500,000	1,421,396	1,921,396	1,826,075
Total cash and short term investments	816,541	1,516,221	2,332,762	2,312,886
Accounts receivable (Note 1)	2,088	2,000	4,088	17,982
Due from Related Parties	5,050	--	5,050	--
Prepaid expenses	30,352	--	30,352	26,092
Interfund receivable (payable)	69,440	(69,440)	--	--
Total current assets	923,471	1,448,781	2,372,252	2,356,960
Property (Note 1)				
Operating equipment	147,140	--	147,140	147,140
Security equipment	72,920	--	72,920	72,920
Pump and irrigation equipment	96,730	--	96,730	96,730
Leasehold improvements	65,840	--	65,840	65,840
Street lights	266,601	--	266,601	266,601
	649,231	--	649,231	649,231
Less accumulated depreciation	(256,787)	--	(256,787)	(215,415)
Total property	392,444	--	392,444	433,816
Total assets	\$ 1,315,915	\$ 1,448,781	\$ 2,764,696	\$ 2,790,776
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	\$ 1,346	\$ --	\$ 1,346	\$ 12,489
Due to Related Party - ECOA	--	31,750	31,750	--
Deferred dues and maintenance	266,106	--	266,106	264,820
Deferred cable charges	101,254	--	101,254	80,154
Refundable construction deposits	40,000	--	40,000	40,000
Total current liabilities	408,706	31,750	440,456	397,463
Commitments (Note 5)				
Fund Balances				
Operating	907,209	--	907,209	881,481
Replacement	--	1,417,031	1,417,031	1,511,832
Total fund balances	907,209	1,417,031	2,324,240	2,393,313
Total liabilities and fund balances	\$ 1,315,915	\$ 1,448,781	\$ 2,764,696	\$ 2,790,776

ELDORADO PROPERTY OWNERS ASSOCIATION
(A California Nonprofit Corporation)

Statement of Revenues and Expenses

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	Operating Fund	Replacement Fund	2016	2015
REVENUES				
Annual lot dues	\$ 513,352	\$ --	\$ 513,352	\$ 514,930
Rental income (Note 4)	--	201,335	201,335	174,835
Escrow transfer fees	--	5,000	5,000	4,400
Construction permit and plan check fees	--	2,567	2,567	23,378
Lot maintenance	16,669	--	16,669	11,686
ECC reimbursements	118,080	--	118,080	120,110
ECOA reimbursements	15,744	--	15,744	16,014
Total revenues	<u>663,845</u>	<u>208,902</u>	<u>872,747</u>	<u>865,353</u>
EXPENSES				
Maintenance				
ECC gardening services	217,714	--	217,714	192,487
Repairs and maintenance - landscaping	48,170	--	48,170	70,566
Repairs and maintenance - streets	18,606	--	18,606	26,952
Repairs and maintenance - storm channel	44,483	--	44,483	41,030
Street reslurry project	--	326,402	326,402	--
Services				
ECC accounting and payroll (Note 6)	51,031	--	51,031	50,710
ECC management service (Note 6)	34,073	--	34,073	33,860
Professional fees	18,867	1,375	20,242	18,261
Insurance	14,406	--	14,406	13,468
Contract services	9,119	--	9,119	11,863
Other				
Utilities	47,949	--	47,949	50,683
Maintenance facility rental (Note 6)	11,628	--	11,628	11,628
Office supplies cable television fees (Note 5)	14,770	--	14,770	5,090
Supplies and small tools	2,243	--	2,243	1,496
Equipment rental	1,845	--	1,845	2,005
Uniforms	2,618	--	2,618	3,518
Total expenses	<u>537,522</u>	<u>327,777</u>	<u>865,299</u>	<u>533,617</u>
OTHER INCOME AND EXPENSES				
Investment income	150	24,074	24,224	25,921
Depreciation (Note 1)	(41,372)	--	(41,372)	(46,938)
Miscellaneous income	--	--	--	3,709
Income taxes (Note 7)	(59,373)	--	(59,373)	(34,249)
Total other income and expenses	<u>(100,595)</u>	<u>24,074</u>	<u>(76,521)</u>	<u>(51,557)</u>
Excess of revenues (expenses) over expenses (revenues)	<u>\$ 25,728</u>	<u>\$ (94,801)</u>	<u>\$ (69,073)</u>	<u>\$ 280,179</u>

ELDORADO PROPERTY OWNERS ASSOCIATION
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Statement of Changes in Fund Balances

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	Operating Fund	Replacement Fund	2016	2015
FUND BALANCE - Beginning of Year	\$ 881,481	\$ 1,511,832	\$ 2,393,313	\$ 2,113,134
Excess of revenues (expenses) over expenses (revenues)	25,728	(94,801)	(69,073)	280,179
FUND BALANCE - End of Year	<u>\$ 907,209</u>	<u>\$ 1,417,031</u>	<u>\$ 2,324,240</u>	<u>\$ 2,393,313</u>

ELDORADO PROPERTY OWNERS ASSOCIATION
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Statement of Cash Flows

Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	Operating Fund	Replacement Fund	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenues (expenses) over expenses (revenues)	\$ 25,728	\$ (94,801)	\$ (69,073)	\$ 280,179
Adjustments to reconcile excess of revenues (expenses) over expenses (revenues) to net cash provided by (used in) operating activities:				
Depreciation	41,372	--	41,372	46,938
Decrease (increase) in:				
Accounts receivable	15,894	(2,000)	13,894	35,218
Due from related parties	(5,050)	--	(5,050)	--
Prepaid expenses	(4,260)	--	(4,260)	16,222
Interfund receivable (payable)	442	(442)	--	--
Increase (decrease) in:				
Accounts payable	(11,143)	--	(11,143)	3,190
Due to related parties	--	31,750	31,750	--
Accrued other expenses	22,386	--	22,386	22,089
Income taxes, including deferred income taxes	--	--	--	(30,000)
Refundable construction deposits	--	--	--	(30,000)
Net cash flows provided by (used in) operating activities	85,369	(65,493)	19,876	343,836
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale of short term investments	523,000	100,000	623,000	249,000
Purchase of short term investments	(500,000)	(218,321)	(718,321)	(881,885)
Purchase of fixed assets	--	--	--	(91,662)
Net cash flows provided by (used in) investing activities	23,000	(118,321)	(95,321)	(724,547)
Net increase (decrease) in cash	108,369	(183,814)	(75,445)	(380,711)
CASH, beginning of the year	208,172	278,639	486,811	867,522
CASH, end of year	\$ 316,541	\$ 94,825	\$ 411,366	\$ 486,811
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for income taxes			\$ 62,190	\$ 45,549

ELDORADO PROPERTY OWNERS ASSOCIATION
(A California Nonprofit Corporation)

Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization: Eldorado Property Owners Association (a California nonprofit corporation) (the Association) was incorporated in the state of California on February 14, 1958 as a homeowners' association. The Association provides certain maintenance and security services for 233 homes and nine vacant lots and common areas associated with those units, located on 220 acres within Eldorado Country Club (the Club) in Indian Wells, California.

Membership in the Association does not entitle the member to any individual interest, participation, share or property right in the assets of the Association. All properties owned by the Association and such funds as are accumulated, if any, are the indivisible property of the Association as a whole, to be used only for corporate purposes. Upon dissolution or winding-up of the Association, after paying or adequately providing for the debts and obligations of the Association, the directors or persons in charge of the liquidation shall assign, transfer or convey any remaining assets to the members of the Association. Such assets are to be divided into a number equal to the number of lots owned of record by all members, and each member is to receive a proportionate share of such assets based upon the number of lots that such member owns.

Under the Amended and Restated Declaration of Conditions and Restrictions (CC&R's) recorded May 10, 2010 and expiring on April 17, 2030, no person(s) shall purchase a Lot within the Project until and unless each such person has been accepted for membership in the Eldorado Country Club, unless the Association fails to exercise its rights of first refusal to purchase the Lot as outlined in the CC&R's. Specifically, if a prospective purchaser of a Lot within the Project is not accepted for membership in the Club, the seller of such Lot shall, by written notice to the Association, offer its Lot for sale to the Association on the same terms and conditions which seller had agreed to accept from the prospective purchaser.

Financial Statement Presentation - 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 street repairs and other capital replacements.

Cash Equivalents: The Association considers all highly-liquid investments with a maturity of three months or less to be cash equivalents. The Association has not designated any other assets as cash equivalents in determining the net increase in cash in the statement of cash flows.

ELDORADO PROPERTY OWNERS ASSOCIATION
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Notes to Financial Statements
June 30, 2016 and 2015

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term investments: As of June 30, 2016 and 2015, short-term investments consist of investments in certificates of deposit. The Association reports the investments at fair value. Unrealized gains and losses and interest income earned from certificates of deposit is included as investment income on the statements of revenues and expenses. No capital gain or loss was recognized at the time of redemption of any certificates of deposit.

Accounts Receivable: Accounts receivables are stated at full value and are considered fully collectible. Bad debts are recorded using the direct write-off method when management believes an account is uncollectible.

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

Property: The Association capitalizes all property and equipment to which it has title or other evidence of ownership. Property is recorded at cost. The cost of maintenance and repairs are charged to expense and significant renewals and betterments are capitalized.

Depreciation: Capitalized common property is depreciated over estimated useful lives of 3 to 15 years using straight-line and accelerated methods. Upon retirement, sale, or other disposition of property and equipment, the costs and accumulated depreciation are eliminated from the accounts, and any resulting gain or loss is included in operations. Depreciation expense for the years ended June 30, 2016 and 2015 was \$41,372 and \$46,938, respectively.

Revenue Recognition: Annual lot dues and lot maintenance revenues billed in advance are recorded as deferred revenue and are recognized as revenues in the periods to which they apply. Related party reimbursement revenues are recognized at the time related expenses are incurred. Real estate rental and construction permit fee revenues are recognized in the period incurred. Percentage rent and escrow transfer fees revenues are recognized when the related homes are sold.

Reclassifications: Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. These reclassifications have no effect on the total fund balance, or the increase in fund balance, as previously reported.

Accounting Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SHORT-TERM INVESTMENTS

The Association invests funds, in certificates of deposit, based on an approved investment policy instituted by the Board of Directors. The general policy is to purchase certificates of deposits with varying terms and maturity dates. The maturity dates will coincide with projected future cash requirements to fund capital improvements.

ELDORADO PROPERTY OWNERS ASSOCIATION
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Notes to Financial Statements
June 30, 2016 and 2015

NOTE 3. CONCENTRATION OF CREDIT RISK

As discussed in Note 1, the primary activity of the Association is the management of common areas within the Eldorado community, which creates a condition of economic dependency based on the continued viability of Eldorado Country Club (the Club).

The Association maintains its cash and cash equivalents with two financial institutions. The Federal Deposit Insurance Corporation (FDIC) insures interest bearing and non-interest bearing accounts up to \$250,000. As of June 30, 2016, the Club maintained deposits of approximately \$73,000 in excess of insured limits. On a regular basis, the Association's policy is to review the financial strength of the financial institution to ensure financial stability and credit quality. The Association has not experienced any losses on any deposits.

NOTE 4. RENTAL INCOME

On March 29, 1984, the Association acquired (at a cost of \$75,000) all of the rights, title, and interest of a lease between the Club and the Estate of Robert P. McCulloch relating to real estate office occupancy and usage. The annual ground lease payment from the Association to the Club is \$10.

On May 10, 2010, the Association entered into a sub-lease agreement with Morton & Murphy, Premier Real Estate Brokers, Inc. (a California S Corporation) for a term of 3 years. On January 16, 2014, the Association renewed the lease on a subsequent month-to-month provision.

The sub-lease agreement provides for base rent of \$2,000 per month with a month-to-month provision. In addition to the base rent, the sub-lessee is required to pay the Association a percentage rent, which is based upon a percentage of gross receipts attributable to property sold by the sub-lessee from the real estate office located on the premises of the Club.

Total rental income, including percentage rent, for the years ended June 30, 2016 and 2015 was \$201,335 and \$174,835, respectively.

NOTE 5. LONG-TERM COMMITMENTS

On May 11, 2014, the Association entered into a contract with Time Warner Cable, for bundled multi-channel video service (cable television) and high speed data service, effective October 1, 2014. The contract is for a term of three years and is renewable in one-year increments at the end of the term. Cable television and high speed data services will be charged at a rate of \$72 per month per homeowner. Annual increases will be limited to \$1 per unit per year beginning October 1, 2015.

Future estimated annual payments over the life of the contract are as follows:

Year Ending June 30,	
2017	\$ 188,505
2018	<u>47,286</u>
Total	<u>\$ 235,791</u>

ELDORADO PROPERTY OWNERS ASSOCIATION
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Notes to Financial Statements
June 30, 2016 and 2015

NOTE 6. RELATED PARTY TRANSACTIONS

Services Provided and Cost Sharing: The Association, Eldorado Cottage Owners Association (ECO) and the Club (ECC) have a comprehensive Master Agreement, which outlines operational and financial arrangements between the three entities. The Master Agreement was effective April 1, 2010 and had a term of five years, which was automatically renewed for an additional five years. Services provided by the Club include gardening services, security services, and management, accounting, and payroll services. The Association utilizes the gardening staff provided by the Club, and other resources to maintain all common areas within the community. As costs are incurred for these services, the Club and the Association bill the other entities for their portion of these costs.

ECC Gardening Services: The Club is the legal employer of all employees used by the Association, ECO, and the Club. Based on this arrangement, the Club pays all wages, payroll taxes, and other benefits on behalf of the Association. On a semimonthly basis, the Association reimburses the Club for these costs.

ECC Security Services: The Association provides security services on a 24-hour, seven day a week basis, for all property owners via the Club's security department. On a semi-annual basis, the Club bills the Association for the estimated cost of security. The Association, in turn, bills each lot owner for their respective share of their prorated cost of security. These costs include the Association's share of the security department's salaries, wages, payroll taxes, prorated security asset charges, and other operating expenses.

ECC Management and Accounting Services: The Association pays a monthly fee for management services of \$2,841 and accounting and payroll services of \$4,226. These fees are subject to possible increases based on the Consumer Price Index with a limit of 5% per year.

ECC Golf Course Maintenance Facility Usage: The Association pays a monthly fee for space usage/equipment storage of \$969 at the Club's golf course maintenance building.

Services Provided by the Association: The Association utilizes the gardening staff provided by the Club and other resources to maintain all common areas within the Eldorado community. These areas include streets, streetlights, common landscaped areas, the dog park area and street medians. Pursuant to the Master Agreement, the parties share these maintenance costs based on the following percentages: ECO 66%, ECO 4%, and the Club 30%.

Shared maintenance for the years ended June 30,	2016	2015
Eldorado Country Club – shared maintenance	\$ 118,080	\$ 120,110
Eldorado Cottage Owners Association – shared maintenance	<u>15,744</u>	<u>16,014</u>
	<u>\$ 133,824</u>	<u>\$ 136,124</u>

As of June 30, 2016 and 2015 the Association had amounts receivable from ECO for shared costs of \$4,302 and \$468, respectively. As of June 30, 2016 the Association had amounts payable to ECO of \$31,750 for real estate commissions received, by the Association, that were due to ECO. The commissions were remitted to ECO subsequent to year end. There were no similar amounts due as of June 30, 2015.

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Notes to Financial Statements
June 30, 2016 and 2015

NOTE 6. RELATED PARTY TRANSACTIONS (Continued)

Services provided by the Club to the Association, for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Annual Security Services	<u>\$ 485,598</u>	<u>\$ 494,648</u>
Annual Management Services	<u>\$ 34,073</u>	<u>\$ 33,860</u>
Annual Accounting services	<u>\$ 51,031</u>	<u>\$ 50,710</u>
Annual Golf Course Maintenance Building Usage	<u>\$ 11,628</u>	<u>\$ 11,628</u>

As of June 30, 2016 and 2015 the Association had receivables due from the Club for common area costs (gardening labor and other) totaling \$0 and \$3,514, respectively.

NOTE 7. INCOME TAXES

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings and rental income, at regular Federal and state corporate rates. The Association has made the annual election to be taxed as a regular corporation in order to minimize its tax obligation. All income taxes are considered current expenses.

Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the difference between the reported amounts of assets and liabilities and their tax basis. For the Association deferred taxes arise from using different depreciation methods for financial reporting purposes and tax reporting purposes.

The Association's policy is to recognize tax positions in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. As of June 30, 2016, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. As of June 30, 2016, the Association's annual tax filings for the prior three and four years are open for audit by Federal and state tax agencies, respectively.

For the years ended June 30, 2016 and 2015, the Association was taxed as a regular corporation. Income tax expense consists of the following:

	2016	2015
Federal	\$ 40,000	\$ 20,000
State	<u>19,373</u>	<u>14,249</u>
	<u>\$ 59,373</u>	<u>\$ 34,249</u>

ELDORADO PROPERTY OWNERS ASSOCIATION
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Notes to Financial Statements
June 30, 2016 and 2015

NOTE 8. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations. The Board of Directors had a study conducted in May 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from reserve study consultants. Actual expenditures, however, may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements.

NOTE 9. SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 18, 2016 the date that the financial statements were available to be issued and has determined no events or transactions need to be recognized or disclosed in these financial statements.

Supplementary Information

ELDORADO PROPERTY OWNERS ASSOCIATION
(A California Nonprofit Corporation)

Future Major Repairs and Replacements (Unaudited)
June 30, 2016

REPLACEMENT FUND AND FUNDING OF THE REPLACEMENT FUND

Replacement reserves are estimated amounts for replacement of major assets of the Association. Reserving provides a secure, planned financial base to address major cost emergencies and to provide replacement of capital assets. A reserve fund acts to stabilize the assets of the community and member assessments, and enables the Association's ability to execute its various responsibilities.

As of July 1, 2008, the Association, in order to make its operations less dependent on non-member income, made the decision to allocate 100% of dues income to the Operating Fund while allocating 100% of the Percentage Rent received under the sub-lease agreement with Morton & Murphy (see Note 4) to the Replacement Fund. Homeowners who undertake to construct or remodel their homes are charged an amount equal to 100% of any construction permit fees charged the homeowner by the City of Indian Wells. For the year ending June 30, 2016, the Association budgeted base and percentage rent, transfer fees and construction permit fees of \$199,000. Such revenues and fees collected by the Association will be allocated to the Replacement Fund.

The Replacement Fund as of June 30, 2016 and 2015 had accumulated cash and marketable securities in the amount of \$1,516,221 and \$1,581,714, respectively. These funds are held in separate investment accounts and are not available for operating purposes.

The Association contracted for and obtained a reserve study, including site inspection, in May 2016. The reserves are approximately 53% funded and the reserve study defined the funding as "Fairly Funded". The unfunded reserves represent a deficit in reserves of approximately \$1,300,000. The estimate for replacement reserves has been prepared using the same sharing percentages as outlined in the Master Agreement.

	Average Estimated Useful Lives (Years)	Average Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs*	Estimate of Required Reserves at June 30, 2016**
Landscaping Equipment	5-30	0-11	\$ 168,032	\$ 107,702
Streets	20-25	0-19	1,714,384	963,882
Security	5-25	0-9	829,543	536,833
Street Lights	15-25	0-23	447,352	153,004
Landscaping	10-30	4-12	1,251,081	907,921
Real Estate Office	10-25	5-19	215,185	53,424
Contingency (5%)			--	136,138
Total Required Reserves			<u>\$ 4,625,577</u>	2,858,904
Current Reserves - Cash and Cash Equivalents				<u>1,516,221</u>
Reserve Deficit				<u>\$ (1,342,693)</u>

* Estimated Current Replacement Cost – Total cost to replace or repair component in today's dollars.

** Estimate of Required Reserves – The amount that should have been saved during the life of the component as of the end of the fiscal year.