

CARNELIAN WOODS

Carnelian Bay, California

FINANCIAL STATEMENTS

AND

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

September 30, 2022 and 2021

CARNELIAN WOODS

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305 West Lake Boulevard
P.O. Box 6179
Tahoe City, Ca 96145

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Carnelian Woods

We have reviewed the accompanying balance sheet of Carnelian Woods as of September 30, 2022, and the related statements of revenue and expenses and changes in fund balances and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association personnel. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Association's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free of material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Carnelian Woods and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacements on page 12 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. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, we do not express an opinion or provide any assurance on such required supplementary information.

Summarized Comparative Information

We previously reviewed Carnelian Woods' 2021 financial statements and in our conclusion dated July 8, 2022, stated that based on our review, we were not aware of any material modifications that should be made to the 2021 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended September 30, 2021, for it to be consistent with the reviewed financial statements from which it has been derived.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
February 19, 2024

CARNELIAN WOODS

Exhibit A

BALANCE SHEETS

September 30, 2022 (with comparative totals for 2021)

(See Independent Accountants' Review Report)

	2022				2021
	Operating Fund	Replacement Fund	Loan Fund	Total	Total
ASSETS					
Cash and cash equivalents	\$ 33,111	\$ 195,599	\$ -0-	\$ 228,710	\$ 299,580
Assessments and other member receivables, net of the allowance for doubtful accounts of \$537 in 2022 and \$3,500 in 2021	26,298	-0-	-0-	26,298	30,548
Due (to) from other funds (Note 6)	(310,440)	271,311	39,129	-0-	-0-
Prepaid expenses	10,800	-0-	-0-	10,800	4,538
Loan fee, net of amortization of \$4,065 in 2022 and \$3,535 in 2021	-0-	-0-	2,870	2,870	3,400
Property & equipment, net (Note 4)	42,661	-0-	-0-	42,661	51,705
Total Assets	<u>\$ (197,570)</u>	<u>\$ 466,910</u>	<u>\$ 41,999</u>	<u>\$ 311,339</u>	<u>\$ 389,771</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 22,193	\$ -0-	\$ -0-	\$ 22,193	\$ 17,648
Accrued expenses	25,750	-0-	-0-	25,750	23,442
Assessments paid in advance	14,440	-0-	-0-	14,440	68,418
Security deposits	5,000	-0-	-0-	5,000	5,000
Note payable (Note 9)	-0-	-0-	1,126,068	1,126,068	1,267,913
Total Liabilities	<u>67,383</u>	<u>-0-</u>	<u>1,126,068</u>	<u>1,193,451</u>	<u>1,382,421</u>
Fund Balances	<u>(264,953)</u>	<u>466,910</u>	<u>(1,084,069)</u>	<u>(882,112)</u>	<u>(992,650)</u>
Total Liabilities and Fund Balances	<u>\$ (197,570)</u>	<u>\$ 466,910</u>	<u>\$ 41,999</u>	<u>\$ 311,339</u>	<u>\$ 389,771</u>

The accompanying notes are an integral part of these statements.

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CARNELIAN WOODS

Exhibit B

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES

For the Years Ended September 30, 2022 and 2021

(See Independent Accountants' Review Report)

	2022				2021
	Operating Fund	Replacement Fund	Loan Fund	Total	Total
Revenue					
Assessments	\$ 500,910	\$ 174,432	\$ -0-	\$ 675,342	\$ 657,237
Special assessment (Note 8)	-0-	-0-	206,298	206,298	206,736
	<u>500,910</u>	<u>174,432</u>	<u>206,298</u>	<u>881,640</u>	<u>863,973</u>
Late fees	-0-	-0-	-0-	-0-	198
Transfer fees	1,400	-0-	-0-	1,400	1,750
Bank interest	-0-	1,164	-0-	1,164	88
Special services income	288,062	-0-	-0-	288,062	332,662
Rental income	33,000	-0-	-0-	33,000	27,475
Miscellaneous	781	-0-	-0-	781	1,550
	<u>824,153</u>	<u>175,596</u>	<u>206,298</u>	<u>1,206,047</u>	<u>1,227,696</u>
Expenses					
Administrative Expenses					
Payroll taxes and benefits	72,269	-0-	-0-	72,269	61,895
Bad debt	211	-0-	-0-	211	2,474
Insurance	68,302	-0-	-0-	68,302	60,787
Professional services	31,808	-0-	-0-	31,808	31,299
Telephone	9,683	-0-	-0-	9,683	7,682
Miscellaneous office	15,194	-0-	-0-	15,194	11,574
Provision for income tax expense (Note 5)	1,490	-0-	-0-	1,490	300
	<u>198,957</u>	<u>-0-</u>	<u>-0-</u>	<u>198,957</u>	<u>176,011</u>
Common Area Expenses					
Recreation salaries	34,765	-0-	-0-	34,765	24,182
Snow removal salaries	10,560	-0-	-0-	10,560	10,692
Maintenance and management salaries	326,529	-0-	-0-	326,529	280,253
Security	366	-0-	-0-	366	461
Maintenance and landscaping	47,161	-0-	-0-	47,161	55,207
Snow removal	10,622	-0-	-0-	10,622	7,097
Truck and fuel	20,831	-0-	-0-	20,831	22,643
Pavilion	2,418	-0-	-0-	2,418	9,124
Property tax	10,758	-0-	-0-	10,758	10,143
	<u>464,010</u>	<u>-0-</u>	<u>-0-</u>	<u>464,010</u>	<u>419,802</u>
Special services	157,774	-0-	-0-	157,774	193,805
Utilities	99,074	-0-	-0-	99,074	94,920
Depreciation and amortization	17,012	-0-	530	17,542	20,452
Replacement expenses (Note 7)	-0-	101,285	64,835	166,120	366,825
	<u>936,827</u>	<u>101,285</u>	<u>65,365</u>	<u>1,103,477</u>	<u>1,271,815</u>
Revenue Over (Under) Expenses	(112,674)	74,311	140,933	102,570	(44,119)
Capitalized replacement fund expenses	7,968	-0-	-0-	7,968	-0-
Fund Balances, Beginning of Year	(160,247)	(832,403)	-0-	(992,650)	(948,531)
Transfer between funds (Note 2A)	-0-	1,225,002	(1,225,002)	-0-	-0-
Fund Balances, End of Year	<u>\$ (264,953)</u>	<u>\$ 466,910</u>	<u>\$ (1,084,069)</u>	<u>\$ (882,112)</u>	<u>\$ (992,650)</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2022 and 2021

(See Independent Accountants' Review Report)

	2022			2021	
	Operating Fund	Replacement Fund	Loan Fund	Total	Total
Cash Flows from Operating Activities:					
Revenue Over (Under) Expenses	\$ (112,674)	\$ 74,311	\$ 140,933	\$ 102,570	\$ (44,119)
Adjustments					
Depreciation and amortization	17,012	-0-	530	17,542	20,452
Purchase of equipment	-0-	7,968	-0-	7,968	-0-
Change in assessments and other member receivables	4,250	-0-	-0-	4,250	(13,004)
Change in due to (from)	120,182	(120,564)	382	-0-	-0-
Change in prepaid expenses and other assets	(6,261)	-0-	-0-	(6,261)	(429)
Change in accounts payable	4,544	-0-	-0-	4,544	(5,525)
Change in accrued expenses	2,308	-0-	-0-	2,308	(6,879)
Change in assessments paid in advance	(53,978)	-0-	-0-	(53,978)	58,635
Change in security deposits	-0-	-0-	-0-	-0-	3,500
Net Cash Provided (Used) by Operating Activities	<u>(24,617)</u>	<u>(38,285)</u>	<u>141,845</u>	<u>78,943</u>	<u>12,631</u>
Cash Flows from Investing Activities:					
Purchase of equipment	-0-	(7,968)	-0-	(7,968)	-0-
Net Cash Used by Investing Activities	<u>-0-</u>	<u>(7,968)</u>	<u>-0-</u>	<u>(7,968)</u>	<u>-0-</u>
Cash Flows from Financing Activities:					
Principle payments on note payable	-0-	-0-	(141,845)	(141,845)	(134,480)
Net Cash Used by Financing Activities	<u>-0-</u>	<u>-0-</u>	<u>(141,845)</u>	<u>(141,845)</u>	<u>(134,480)</u>
Net Increase (Decrease) in Cash and Equivalents	(24,617)	(46,253)	-0-	(70,870)	(121,849)
Cash and Cash Equivalents, Beginning of Year	<u>57,728</u>	<u>241,852</u>	<u>-0-</u>	<u>299,580</u>	<u>421,429</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 33,111</u></u>	<u><u>\$ 195,599</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 228,710</u></u>	<u><u>\$ 299,580</u></u>
Supplemental Disclosure:					
Income taxes paid	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 157</u>
Interest paid	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 64,835</u>	<u>\$ -0-</u>	<u>\$ 72,201</u>

CARNELIAN WOODS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022 and 2021

(See Independent Accountants' Review Report)

1. Form and Nature of Organization

Carnelian Woods (the Association) is a California non-profit mutual benefit corporation organized for the purpose of maintaining, preserving, and operating the common areas of the Association. The Association members consist of those persons or entities owning the 118 units of real property in the complex known as Carnelian Woods in Carnelian Bay, California. The Association's policies are established by the Board of Directors within the framework of the Covenants, Conditions, and Restrictions (CC&Rs) of the Association. A significant portion of the Association's revenue is derived from assessment of members.

2. Significant Accounting Policies

A. The Association's governing documents provide certain guidelines for controlling its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts on the fund accounting basis. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements.

Loan Fund - Used to account for financial resources utilized for siding replacements including a special assessment and long-term note. The fund was established in 2022 to separate the related transactions from the replacement fund. A fund balance transfer of \$1,225,002 was recorded to set up the fund.

B. Real property and other common property acquired by the original unit owners from the developer are not capitalized on the Association's financial statement as they are owned by the individual owners and not the Association. Replacements and improvements to the real property common areas are not capitalized as in a residence form of ownership, the real property improvements also belong to the owners and not the Association. The Association's policy is to capitalize personal property purchased by the Association. Depreciation is provided on assets based on their estimated useful lives of 5 to 7 years, using the straight-line or accelerated methods of depreciation. Common areas are restricted to use by Association members, their tenants, and guests. Common area property not capitalized on the financial statements consists of a lodge, pool, tennis courts, sales pavilion, land, and certain roads.

C. Association members are subject to quarterly assessments that provide funds for the Association's operating expenses and major repairs and replacements. Accounts

CARNELIAN WOODS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022 and 2021

(See Independent Accountants' Review Report)

receivable at the balance sheet date represent amounts due from unit owners for assessments and other charges. The Association's policy includes, among other things, assessing a late charge and interest on assessments unpaid past their due date. Liens may be placed on the property of homeowners whose assessments are delinquent. An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association is notified that it is a bad debt, such as after a bankruptcy or foreclosure proceedings.

- D. It is the policy of the Association to include in members' annual assessments an amount as an addition to the replacement fund for the purposes of defraying, in whole or in part, the estimated cost of any reconstruction, repair, or replacement of improvements, including fixtures and personal property related thereto, commonly called "common areas". The amount provided is based on a study that estimates the amount needed to fund replacements on a composite basis over the estimated life cycles of the common areas the Association is obligated to replace. 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 any necessary member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available. Certain items have been excluded from the replacement fund, as their lives and cost are not predictable.
- E. The Association earns interest on money market demand accounts. Interest income is recorded in the fund that holds the investment. Income taxes are generally charged to the operating fund.
- F. The Association is taxed on net income as a regular corporation. Member revenue can be offset to the extent of member expenses. In general, dues allocated for future major repairs and replacements can be set aside on a tax-free basis if applicable guidelines are followed. Additionally, other amounts received by the Association, such as investment income, are taxed net of related expenses for federal and state purposes. The Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.
- G. Assessments paid in advance represent assessments received in the current period that are applicable to the following period.
- H. For purposes of the Statements of Cash Flow (Exhibit C), cash and cash equivalents include highly-liquid investments with maturities of three months or less and certain certificates of deposit.

CARNELIAN WOODS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022 and 2021

(See Independent Accountants' Review Report)

- I. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to the short-term maturities of these instruments.
- J. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- K. The Association has adopted the provisions of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, ("Topic 606" in the Accounting Standards Codification (ASC)). Topic 606 superseded the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*. Under Topic 606, the Association must identify a contract with a customer, among other things, and recognize revenue as the Association satisfies a performance obligation.

As described in Note 2. C., Association members are subject to quarterly assessments that provide funds for the Association's operating expenses and major repairs and replacements. Association management has considered Topic 606 and concluded that Association members are not customers as defined in the ASC. As such, all assessment revenue, including amounts allocated to the replacement fund, is recognized in the period in which it is assessed, regardless of when it is collected or expended.

- L. Contract revenue consists of special services income, rental income, and security processing revenue from Association members and non-members. This revenue is recognized as the performance obligations are satisfied, in accordance with Topic 606, at transaction amounts expected to be collected. The Association's performance obligations related to its contract revenue is satisfied on a pro-rata basis over the period for which the income applies. A contract liability (income received in advance) is recorded when the Association has the right to receive payment in advance of the performance obligations related to the income.

Substantially all of the Association's contract revenue pertains to programs that were completed prior to September 30, 2022 and 2021, therefore the balance of the Association's contract liabilities was \$-0- as of September 30, 2022 and 2021. No significant revenue was recognized in the current year resulting from performance obligations satisfied in previous periods.

CARNELIAN WOODS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022 and 2021

(See Independent Accountants' Review Report)

3. Concentration of Risk

The Association maintains bank accounts at various financial institutions. At September 30, 2022 and 2021, the accounts did not exceed the FDIC limit.

4. Equipment and Furniture

Association property and equipment consists of the following at September 30:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 104,867	\$ 96,899
Vehicles and snow removal equipment	221,002	221,002
	<u>325,869</u>	<u>317,901</u>
Less: accumulated depreciation	<u>(283,208)</u>	<u>(266,196)</u>
	<u>\$ 42,661</u>	<u>\$ 51,705</u>

5. Income Taxes

The provision (benefit) for income taxes is as follows:

	<u>2022</u>	<u>2021</u>
Federal	\$ (248)	\$ (474)
State	1,454	774
	<u>\$ 1,206</u>	<u>\$ 300</u>

6. Interfund Activity

The Association maintains an operating fund and a replacement fund. At various times during the year there is a receivable/payable (due to/from) between the funds. At September 30, 2022, the operating fund owed the replacement fund and loan fund \$271,311 and \$39,129, respectively. At September 30 2021, the operating fund owed the replacement fund \$193,658.

CARNELIAN WOODS

NOTES TO THE FINANCIAL STATEMENTS

September 30, 2022 and 2021

(See Independent Accountants' Review Report)

7. Replacement Expenses

Replacement expenses consist of the following for the year ending September 30:

	2022	2021
Unit balconies replacement	\$ 7,925	\$ 71,924
Forestry land improvements	18,640	33,715
Asphalt	29,400	-0-
Pool & spa	10,799	-0-
Entry stairs & under unit	34,520	-0-
Bat exclusion	-0-	188,985
Loan interest	-0-	72,201
	\$ 101,285	\$ 366,825

8. Special Assessment

During 2013, the Association members approved a special assessment for repayment of a loan that was approved to fund the re-siding of residential units with fire-retardant panels which was estimated to cost \$1,500,000. The assessment is effective over the loan repayment period of 2014 through 2029. Owners paid \$417 per unit per quarter from February 2014 through December 31, 2018, then \$438 per unit per quarter from January 1, 2019 through 2029, after the loan was modified (Note 9). At September 30, 2022 and 2021 the loan balance is approximately \$1,126,000 and \$1,270,000, respectively, to be paid back with interest by the special assessment.

9. Note Payable

In 2014, the Association entered into a \$2,000,000 note payable, collateralized by current and future assessments. The note was authorized in order to fund new fire-retardant siding (see Note 8). The note was to be repaid over 180 months at 4.51% interest, renewable every 5 years. In February 2019, the loan was modified to a fixed rate of 5.31% with a 10 year term with the first payment commencing on March 27, 2019. The note is payable in monthly installments of \$17,479 through February 2029.

Future minimum principal payments are as follows:

Year ending September 30,		
2023	\$	150,644
2024		158,840
2025		167,483
2026		176,596
Thereafter		472,505
	\$	1,126,068

CARNELIAN WOODS

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(See Independent Accountants' Review Report)

The note payable requires the Association to maintain certain financial ratios. In addition, the agreement contains affirmative and negative covenants regulating, among other things, additional indebtedness and liens, continuing operations, compliance with laws and regulations, and other matters customarily restricted by such agreements. The agreement also contains customary events of default, including breach of terms and/or conditions, failure to pay on a timely basis, covenant defaults, and events of insolvency.

10. Subsequent Events

Subsequent events have been evaluated by management through February 19, 2024, the date that the statements were available for issuance.

CARNELIAN WOODS

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

September 30, 2022

(See Independent Accountants' Review Report)

The Association's management and consultants updated a study in 2020 to estimate the remaining useful lives, the life after replacement and the replacement costs of the components of common property. The estimates were based on management's and contractors' estimates and historical costs. Estimated current replacement costs have been adjusted to reflect a 2.5% interest rate and a 2.5% inflation factor between the date of the study and the date that the components will require repair or replacement.

The Association does not designate the balance in the replacement fund by component. The total cash available for major repairs and replacements as of September 30, 2022 is \$195,599. The 2023 budget includes \$-0- of assessments to be allocated to the replacement fund.

The following table is based on the study and presents significant information about the components of common property for which funds are being set aside.

Component	Range of Useful Life (Years)	Range of Remaining Life (Years)	Current Replacement Costs
Paving	2-25	6-8	\$ 460,255
Concrete	40	31	99,900
Structural repairs	10-40	14-34	1,954,668
Decking/balconies	6-25	6-14	366,000
Roofing	40	17	1,693,300
Rehab	12-30	6-25	51,900
Pool	5-25	6-17	98,156
Spa	10-20	6-11	48,050
Recreation	10-20	6-9	17,800
Tennis court	10-40	15	190,080
Landscaping	1-5	7-10	28,750
Fencing	15-30	6-20	34,950
Lighting	20	6	79,650
Signage	12	6	3,750
Mechanical equipment	10-30	9-24	22,225
Furnishings	10	6	11,250
Safety/access	10	6	12,000
Flooring	10	12	10,988
Outdoor equipment	10-20	9-17	22,378
Appliances	6	6	4,375
Miscellaneous	1-20	0-16	1,484,331
			<u>\$ 6,694,756</u>