

LAKE DON PEDRO OWNERS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2022 AND 2021

1. THE ASSOCIATION

Lake Don Pedro Owners' Association (the Association) is a common interest development located in La Grange, California which consists of 3122 lots and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in August 1968 to provide for management, maintenance and architectural control of the individual units and the common area property. The Association is governed by a member-elected Board of Directors which is responsible for enforcing provisions of the governing documents, which include covenants, conditions and restrictions (CC&Rs), by laws, and rules and regulations. Major decisions, as determined by the CC&Rs, are referred to the Association owners as a whole.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Assessments. Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The estimate of allowance for doubtful accounts, if any, is based, generally on amounts past due greater than 90 to 120 days.

Basis of presentation. The accompanying financial statements, and the Association's corporate income tax returns, have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America, whereby revenues are recognized when earned and expenses are recognized when incurred.

See independent accountant's review report.

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2022 AND 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents. For purposes of the statement of cash flows, the Association considers all short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Cash equivalents are classified with cash in the balance sheet.

Concentrations of credit risk. Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash, cash equivalents and investments. The Association maintains its financial instruments with what management believes to be high credit quality financial institutions and limits the amount of credit exposure to any one particular institution. Cash, cash equivalents and investments in excess of federal deposit insurance (FDIC) coverage limits as of June 30, 2022 totaled approximately \$760,000.

Contract liabilities - replacement reserve assessments paid in advance. The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability - replacement reserve assessments paid in advance is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments.

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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the differences could be material.

Fund accounting. The Association's governing documents provide certain guidelines for governing its financial activities. To ensure the 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 two funds established according to their nature and purpose. The operations fund is used to account for the financial resources available for the general day-to-day operations of the Association. The replacement fund is used to accumulate financial resources designated for future major repairs and replacements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes are paid on income from sources which are not related to the nonprofit, membership purposes of the Association. Nonmembership income, less related nonmembership expenses, subject to federal and California income taxes includes interest earned on cash and cash equivalents, and investments.

For federal purposes, the Association has received exemption from tax under IRC Section 501(c)(7) and is subject to tax on net nonmembership income at 21%. California income taxes approximate 9% of taxable income.

The Association's tax filings are subject to audit by various taxing authorities: federal income tax returns for the previous three years remain open to examination by the Internal Revenue Service and California income tax returns for the previous four years remain open to examination by the Franchise Tax Board. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Interest earned on operations and replacement funds, net of related income taxes, is retained in said respective funds. With the implementation of FASB ASC 606 new accounting guidance, reported replacement reserve interest income may be less than earned.

Membership in the Association is mandatory by virtue of unit ownership.

Real and personal common property acquired by the original owners from the developer is not recognized in the Association's financial statements, in accordance with prevalent industry practice, because it is commonly owned by the individual Association members and its disposition by the Board Of Directors is restricted. Similarly, major repairs, replacements and improvements to real and personal property are not recognized.

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3. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents, and California state law (Civil Code Section 5300), require that the Board Of Directors provide for the repair and replacement of Association common area major components. Accordingly, funds which comprise the replacement fund are not generally available for the payment of day-to-day operating expenses.

The Association has completed a study of its common area major components sufficient to assist the Board in planning for future major repairs and replacements. The reasonableness of the resulting reserve funding plan is a function of the completeness of the major component list, the accuracy of the estimated quantity, useful and remaining lives and current replacement costs of those components, and the reasonableness of significant funding assumptions, including but not limited to the projected major component cost increases (aka inflation) and interest earning rate(s) on replacement fund cash balances.

Funds are being accumulated in the replacement fund based on estimated future costs for repair and replacement of common area property. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material.

Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future component repair and replacement costs. The ability of the Association to fund its future requirements is dependent upon annual increases in that portion of the assessment which is allocated to the replacement fund, and/or special assessments. In the event that funds are not available when needed, the Board may, subject to the constraints of California law and the Association's governing documents, increase regular assessments, levy special assessments, and/or delay repair and replacement of common area major components until funds are available.

Additional information about future major repairs and replacements may be found in the annually-distributed pro forma operating budget and related assessment and reserve funding disclosure summary (pursuant to California Civil Code Section 5300).

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4. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) has issued new guidance that created Accounting Standards Codification (ASC) Topic 606. This new guidance supercedes the revenue recognition requirements in FASB ASC 972-605, Real Estate - Common Interest Realty Associations (CIRAs), Revenue Recognition, and now requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services (i.e. the accumulation of unspent replacement reserve cash and investments from assessment payments over time which are eventually to be used for common area major repairs and replacements).

The Association has adopted the new guidance as of July 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of July 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenues and contract liabilities - replacement reserve assessments paid in advance.

<u>2021-2022 Assessment Revenues Reconciliation</u>	Operations Fund	Replacement Fund	Total Funds
Assessment revenues <u>per budget</u>	\$ 282,200	\$ 30,000	\$ 312,200
Effects of applying <u>new guidance</u>			
Reclassify <u>interfund transfers</u>	-	13,960	13,960
Adjust revenues to equal expenses	-	(30,974)	(30,974)
Total effects of new guidance	-	(17,014)	(17,014)
Assessment revenues <u>per financial statements</u>	<u>\$ 282,200</u>	<u>\$ 12,986</u>	<u>\$ 295,186</u>
<u>2020-2021 Assessment Revenues Reconciliation</u>	Operations Fund	Replacement Fund	Total Funds
Assessment revenues <u>per budget</u>	\$ 267,200	\$ 45,000	\$ 312,200
Effects of applying <u>new guidance</u>			
Adjust revenues to equal expenses	-	(45,000)	(45,000)
Total effects of new guidance	-	(45,000)	(45,000)
Assessment revenues <u>per financial statements</u>	<u>\$ 267,200</u>	<u>\$ -</u>	<u>\$ 267,200</u>

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5. COMMITMENTS

The Association enters into contracts for management and/or maintenance services in the normal course of its business operations. These contracts are generally cancelable on thirty to ninety days' advance notice.

6. COVID-19

In December 2019 a novel strain of coronavirus surfaced and has spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization in January 2020. The effect of this virus on the financial position and/or results of operations of the Association is unknown at this time.

7. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through August 24, 2022, the date that the financial statements were available to be issued.

See independent accountant's review report.

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**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
JUNE 30, 2022
(UNAUDITED)**

The following information on common area major components was compiled by Browning Reserve Group of Sacramento, California as of February 2022 and has served as the basis for the current estimates of replacement reserve funding:

<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00001 - Hacienda Interior				
03500 - Painting: Interior				
300 - Clubhouse	3,272	5	2	1,963
21,475 sf Hacienda (50%)				
04000 - Structural Repairs				
912 - Doors	7,132	20	13	2,496
Kitchen Sliding Door				
916 - Doors	35,661	20	15	8,915
5 Sliding Doors				
08000 - Rehab				
110 - General	3,578	8	5	1,342
3,440 sf Pavilion				
120 - General	4,729	8	1	4,138
1,360 sf Lounge & Bar				
130 - General	4,665	12	1	4,277
1,276 sf Gym & Library				
140 - General	6,951	5	4	1,390
1,390 sf Kitchen				
150 - General	1,463	5	1	1,170
922 sf Offices & Lobby				
154 - General	3,595	10	4	2,157
376 sf [3] Rental Offices				
160 - General	3,880	8	4	1,940
649 sf Lower Apartment				
162 - General	1,005	10	4	603
300 sf Lower Apartment- Patio Repair				
170 - General	6,256	8	4	3,128
1,251 sf Upper Apartment				
220 - Restrooms	1,486	8	2	1,114
2 Near Lounge				
230 - Restrooms	1,486	8	1	1,300
2 Near Offices				
14000 - Recreation				
290 - Exercise: Miscellaneous Equip.	1,444	5	4	289
Multipurpose Room				
22000 - Office Equipment				
200 - Computers, Misc.	4,033	6	1	3,361
Office				
23000 - Mechanical Equipment				
200 - HVAC	11,165	15	7	5,955
Office				
210 - HVAC	12,491	15	4	9,160
4 Pavilion Evaporative Units				
220 - HVAC	4,058	30	7	3,111
Lounge				
260 - HVAC	5,239	30	18	2,096
Lower Apartment				
270 - HVAC	7,938	30	21	2,381
Upper Apartment				
630 - Water Heater	585	15	9	234
Pavilion Restrooms				
640 - Water Heater	919	15	6	551
Kitchen				
650 - Water Heater	919	15	2	796

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<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00001 - Hacienda Interior				
23000 - Mechanical Equipment				
Pool Restrooms				
660 - Water Heater Lower Apartment	919	15	3	735
670 - Water Heater Upper Apartment	1,444	15	6	866
910 - Swamp Cooler Kitchen Evaporative Unit	1,870	30	7	1,434
24000 - Furnishings				
100 - Miscellaneous Office	4,264	10	4	2,559
104 - Miscellaneous Pavilion Stage	4,874	20	6	3,412
110 - Chairs 250 Pavilion Folding Chairs	8,831	25	2	8,124
114 - Chairs 40 Pavilion Folding Chairs	702	25	17	225
118 - Tables 75 Lounge Tables & Folding Chairs	6,442	25	15	2,577
160 - Miscellaneous Lower Apartment- 2019/20	5,778	15	13	770
170 - Miscellaneous Upper Apartment Furnishings- 2019/2020	8,195	15	13	1,093
174 - Miscellaneous Upper Apartment Furnishings	2,101	15	4	1,541
400 - Sofa 3 Lower Apartment- Sofa/Loveseat/Table	1,230	15	13	164
24500 - Audio / Visual				
100 - Television Multipurpose Room	995	10	4	597
104 - Television Television- Lower Apartment	329	10	2	263
300 - PA System PA System	825	10	4	495
25000 - Flooring				
250 - Carpeting 168 Sq. Yds. Offices & Reception Area	2,455	15	1	2,292
260 - Carpeting 73 Sq. Yds. Lower Apartment	2,419	15	3	1,935
404 - Tile 15 Sq. Yds. Lower Apartment	1,783	20	13	624
420 - Tile 800 sf Lounge Upper Level	8,000	25	5	6,400
424 - Coatings 684 sf Lounge Lower Level- Stamped Concrete	4,161	15	6	2,497
630 - Vinyl 140 Sq. Yds. Game Room	7,676	15	4	5,629
670 - Vinyl 61 Sq. Yds. Upper Apartment	3,345	18	9	1,672
674 - Vinyl 93 Sq. Yds. Upper Apartment	5,253	20	18	525
920 - Coatings 3,500 sf Pavilion Floor	19,232	17	14	3,394
27000 - Appliances				
220 - 4-Burner Stove & Oven Upper Apartment	525	20	18	53
222 - Refrigerator Upper Apartment	1,051	15	10	350
224 - Refrigerator Lounge	919	15	1	857
240 - Dishwasher Upper Apartment	787	17	2	694

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<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00001 - Hacienda Interior				
27000 - Appliances				
260 - Refrigerator Lower Apartment	1,050	20	2	945
322 - Washer Lower Apartment	1,050	15	2	910
332 - Dryer Lower Apartment	725	15	2	628
340 - Washer Kitchen Area- Housekeeping Washer	986	10	1	887
344 - Dryer Kitchen Area- Housekeeping Dryer	986	10	1	887
360 - Dishwasher Lower Apartment	800	17	2	706
460 - 4-Burner Stove & Oven Lower Apartment	525	20	18	53
540 - Refrigerator: Commercial: Large Kitchen	3,899	20	10	1,949
640 - Freezer: Large Kitchen	499	15	9	199
740 - Stove / Oven: Commercial grade 6-burner Kitchen	6,292	25	19	1,510
910 - Ice Machine Lounge	3,776	20	13	1,322
Sub-total Hacienda Interior	260,943			125,642
00003 - Common Area				
01000 - Paving				
110 - Asphalt: Sealing 2,768 sf Sport Court	698	8	2	523
210 - Asphalt: Ongoing Repairs 2,768 sf Sport Court (3%)	305	8	2	229
310 - Asphalt: Overlay 2,768 sf Sport Court	6,107	25	11	3,420
Sub-total Common Area	7,110			4,172
00004 - Hacienda Exterior				
02000 - Concrete				
220 - Walkways 4,550 sf Hacienda (2%)	1,538	8	7	192
400 - Pool Deck 8,650 sf Pool Area Concrete (2%)	4,217	8	2	3,163
03000 - Painting: Exterior				
100 - Surface Restoration 9,700 sf Hacienda	23,643	12	2	19,703
110 - Surface Restoration 995 sf Trellises	3,157	8	1	2,762
04000 - Structural Repairs				
300 - Trellis 370 sf Upper Apartment	2,437	20	13	853
04500 - Decking/Balconies				
190 - TBA 539 sf [2] Upper Apartment Balcony Membranes	3,941	25	20	788
200 - TBA 360 sf Upper Apartment Bedrooms Balcony	1,645	10	5	823
210 - TBA 179 sf Upper Apartment Living Room Balcony	818	10	5	409
05000 - Roofing				
200 - Low Slope: BUR 35 Squares- Upper Apartment & Pavilion	11,024	11	1	10,022
410 - Pitched: Dimensional Composition 6 Squares- Lounge & Kitchen- Access Walkways	2,793	25	2	2,569
670 - Pitched: Tile 108 Squares- Hacienda	104,875	30	9	73,412

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<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00004 - Hacienda Exterior				
05000 - Roofing				
700 - Gutters / Downspouts	6,854	30	4	5,940
703 If Hacienda				
19000 - Fencing				
300 - Wood	788	15	9	315
25 If Garbage Enclosure				
390 - Vinyl	4,192	20	10	2,096
215 If Hacienda Rear				
394 - Vinyl	2,128	20	16	426
90 If Front of Pavilion				
20000 - Lighting				
100 - Exterior: Misc. Fixtures	7,018	15	3	5,614
48 Various Lighting Fixtures (40%)				
24600 - Safety / Access				
520 - Card Readers	6,548	10	1	5,893
Hacienda- Key Fob Entry				
700 - Security System	3,532	6	2	2,355
Hacienda				
704 - Security System	16,364	6	1	13,637
Hacienda Add'l Security Cameras				
25000 - Flooring				
400 - Tile	1,723	5	2	1,034
3,534 sf Courtyard & Entry (5%)				
26000 - Outdoor Equipment				
350 - Furniture	4,496	18	8	2,498
36 Hacienda Patio Chairs				
354 - Furniture	4,496	18	8	2,498
36 Tables and Umbrellas				
Sub-total Hacienda Exterior	218,226			157,001
00012 - Hacienda Parking				
01000 - Paving				
100 - Asphalt: Sealing	8,041	3	1	5,361
46,384 sf Parking & Rear Access Road				
200 - Asphalt: Ongoing Repairs	1,706	3	1	1,137
46,384 sf Parking & Rear Access Road (1%)				
300 - Asphalt: Overlay w/ Interlayer	102,338	25	17	32,748
46,384 sf Parking & Rear Access Road				
02000 - Concrete				
210 - Curbs & Gutters	2,261	10	3	1,583
2,900 If Parking Lot (2%)				
03000 - Painting: Exterior				
104 - Masonry Walls	999	12	2	832
540 If Hacienda Perimeter Stucco Walls				
19000 - Fencing				
540 - Gates	5,507	30	7	4,222
2 Entrance Gates				
20000 - Lighting				
540 - Parking Lot	20,469	30	7	15,693
14 Hacienda Parking Lot Lights				
Sub-total Hacienda Parking	141,320			61,576
00028 - Prado Park				
01000 - Paving				
900 - Gravel	4,400	8	0	4,400
40 Cu. Yds. Access Road Replenish				
18500 - Lakes / Ponds				
990 - Miscellaneous	5,125	5	4	1,025
5 Dams/Spillways Cleaning (20%)				
19000 - Fencing				
100 - Chain Link: 4'	2,915	30	16	1,360
184 If Outfield Fence				

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<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00028 - Prado Park				
26000 - Outdoor Equipment				
100 - Tot Lot: Play Equipment Play Equipment	6,963	15	5	4,642
901 - Miscellaneous Gregoris Park- Portable Toilet	1,740	15	7	928
30000 - Miscellaneous				
810 - Maintenance Equipment Riding Lawn Mower	2,924	15	4	2,144
Sub-total Prado Park	24,068			14,500
00029 - Pool				
04000 - Structural Repairs				
304 - Trellis 550 sf Pool Trellis	14,406	20	16	2,881
310 - Trellis 450 sf Pool Shade Structure	11,243	20	5	8,432
05000 - Roofing				
680 - Pitched: Dimensional Composition Pool Equipment Structure	826	25	12	430
08000 - Rehab				
210 - Bathrooms 2 Pool Bathrooms	45,256	20	1	42,994
12000 - Pool				
110 - Resurface 148 lf Pool	22,629	12	8	7,543
700 - Equipment: Replacement Pool (50%)	2,297	5	1	1,837
930 - Furniture: Misc Pool (33%)	2,100	3	3	525
931 - Furniture: Misc Chaise Lounges (2021/2022 Only)[nr:1]	1,000	1	0	1,000
990 - Miscellaneous 4 Pool Area Shade Structures	2,143	10	1	1,929
19000 - Fencing				
200 - Gates 6 Pool Area Gates	2,741	30	12	1,645
26000 - Outdoor Equipment				
104 - Tot Lot: Play Equipment Pool Area Lawn	14,677	15	9	5,871
200 - Pedestal Grill BBQ 3 Pool Area	1,279	12	1	1,173
280 - Picnic Tables 2 Pool	1,706	20	5	1,279
870 - Miscellaneous Soda Machine	2,050	10	9	205
910 - Miscellaneous Courtyard Fountain	1,249	30	12	749
Sub-total Pool	125,602			78,492
00032 - Hacienda Support				
08000 - Rehab				
104 - General Tuff Shed	3,150	20	3	2,677
180 - Doors Pavilion Double Doors	3,500	10	0	3,500
19000 - Fencing				
110 - Chain Link: 6' 1,606 lf Perimeter Areas	33,763	30	2	31,512
23000 - Mechanical Equipment				
860 - Septic System Repairs/Maintenance	3,213	6	0	3,213

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<i>Reserve Component</i>	<i>Current Repl. Cost</i>	<i>Useful Life</i>	<i>Remaining Life</i>	<i>2021/2022 Fully Funded Balance</i>
00032 - Hacienda Support				
26000 - Outdoor Equipment				
840 - Shade Structure White Canopy	547	10	10	50
890 - Miscellaneous BBQ Trailer	1,706	20	5	1,279
28000 - Water System				
100 - Distribution Line Repl. Well-Hacienda Main Water Supply	1,455	20	18	146
130 - Backflow Valves Pump House Backflow	2,059	20	11	927
990 - Miscellaneous Pump House- Ongoing Repairs	4,623	6	4	1,541
994 - Miscellaneous Pumphouse- Major Repairs/Replacement	19,699	14	12	2,814
30000 - Miscellaneous				
812 - Tractor Massey Ferguson Tractor	39,993	20	12	15,997
820 - Vehicle Kawasaki Mule	6,150	15	14	410
Sub-total Hacienda Support	119,858			64,066
00036 - Barn				
04000 - Structural Repairs				
910 - Building Maintenance 1,056 sf Barn Structure	20,780	30	3	18,702
30000 - Miscellaneous				
990 - Trailer Utility Trailer	1,706	20	5	1,279
Sub-total Barn	22,486			19,981
				[A]
Totals	919,613			525,431
				[EndBal]
				[A]
Percent Funded				120%

The Association has conducted a study to estimate the useful and remaining lives and current replacement costs of common property major components. Funding requirements consider an estimated **before-tax interest rate of 2-1/2%** on replacement fund cash balances and an annual **inflation rate of 1-1/2%** on major component replacement costs. The replacement fund **cash** and investment balances at June 30, 2022 totaled **\$634,660**. The estimated **liability** for major repairs and replacements at this date totaled approximately **\$525,000**. The portion of **2023 regular assessments** budgeted to be allocated to the replacement fund totals **\$10,000**.

See independent accountant's review report and accompanying notes.