LEVY, ERLANGER & COMPANY
Certified Public Accountants

290 King Street, Suite 12
San Francisco, CA 94107

INDEPENDENT AUDITOR'S REPORT

Board Of Directors
Talavera Owners Association
Santa Clara, California

We have audited the accompanying financial statements of **Talavera Owners Association** (the Association) which comprise the balance sheet as of December 31, 2016 and the related statements of revenues, expenses and changes in fund balances, and the 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.

Auditor's 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 auditor's 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 **Talavera Owners Association** as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Board Of Directors
Talavera Owners Association
Independent Auditor's Report (Continued)

Prior Period Financial Statements

The 2015 financial statements of **Talavera Owners Association** were reviewed by another accountant whose report dated March 03, 2016, stated that, based on his procedures, he was not aware of any material modifications that should be made to those financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Future Major Repairs and Replacements

As further discussed in the notes to the financial statements, 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 replacement reserve funding plan is a function of the completeness of the major component list and the accuracy of the estimated quantity, useful and remaining lives, and replacement costs of those components.

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 sufficient funds are available.

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

Levy, Erlanger & Company

March 8, 2017

TALAVERA OWNERS ASSOCIATION

BALANCE SHEETS
DECEMBER 31, 2016 (AUDITED) AND 2015 (REVIEWED)

	2016			2015
	Operations Fund	Replacement Fund	Total Funds	Total Funds
ASSETS				
Cash and cash equivalents (Note 2)	$ 17,824	$ 159,069	$ 176,893	$ 160,046
Assessments receivable (Note 2)	140		140	415
Prepaid insurance	2,428		2,428	2,427
Prepaid income taxes	54		54	54
Total assets	$ 20,446	$ 159,069	$ 179,515	$ 162,942
LIABILITIES				
Accounts payable	$ 5,430	$ -	$ 5,430	$ 2,317
Assessments paid in advance	4,444		4,444	2,836
Future major repairs and replacements (Note 3)	-	-	-	-
Total liabilities	9,874	-	9,874	5,153
COMMITMENTS (NOTE 4)	-	-	-	-
FUND BALANCE (DEFICIT)	10,572	159,069	169,641	157,789
Total liabilities and fund balance	$ 20,446	$ 159,069	$ 179,515	$ 162,942

See independent auditor's report and accompanying notes.

TALAVERA OWNERS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED DECEMBER 31, 2016 (AUDITED) AND 2015 (REVIEWED)

	2016			2015
	Operations Fund	Replacement Fund	Total Funds	Total Funds
REVENUES				
Assessments	$ 57,312	$ 13,200	$ 70,512	$ 70,354
Interest income (Note 2)	11	303	314	324
Late charges and other income	355		355	374
Total revenues	57,678	13,503	71,181	71,052
EXPENSES				
Administration				
Insurance	2,912	-	2,912	2,974
Legal and accounting	2,280		2,280	2,192
Management	9,984		9,984	9,792
Office, printing and postage	672		672	624
	15,848	-	15,848	15,582
Maintenance and operations				
Landscape maintenance	22,886	-	22,886	20,782
Pest control	3,150		3,150	
Other maintenance and operations	3,230		3,230	1,061
	29,266	-	29,266	21,843
Utilities				
Gas and electricity	1,283		1,283	1,193
Water and sewer	12,932		12,932	12,168
	14,215	-	14,215	13,361

See independent auditor's report and accompanying notes.

TALAVERA OWNERS ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES YEARS ENDED DECEMBER 31, 2016 (AUDITED) AND 2015 (REVIEWED)

	2016			2015
	Operations Fund	Replacement Fund	Total Funds	Total Funds
EXPENSES (CONTINUED)				
Major repairs and replacements				
Landscaping, trees and irrigation	$ -	$ -	$ -	$ 4,020
Painting and waterproofing				1,900
Other major repairs and replacements				1,000
	-	-	-	6,920
Total expenses	59,329	-	59,329	57,706
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	(1,651)	13,503	11,852	13,346
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	12,223	145,566	157,789	144,443
FUND BALANCE (DEFICIT), END OF YEAR	$ 10,572	$ 159,069	$ 169,641	$ 157,789

See independent auditor's report and accompanying notes.

TALAVERA OWNERS ASSOCIATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 (AUDITED) AND 2015 (REVIEWED)

	2016			2015
	Operations Fund	Replacement Fund	Total Funds	Total Funds
OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	$ (1,651)	$ 13,503	$ 11,852	$ 13,346
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:				
Decrease (increase) in assets:				
Assessments receivable	275	-	275	(161)
Prepaid insurance	(1)		(1)	61
Prepaid income taxes				20
Increase (decrease) in liabilities:				
Accounts payable	3,113		3,113	(94)
Assessments paid in advance	1,608		1,608	(983)
Total adjustments	4,995	-	4,995	(1,157)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	3,344	13,503	16,847	12,189
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,344	13,503	16,847	12,189
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,480	145,566	160,046	147,857
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,824	$ 159,069	$ 176,893	$ 160,046
Supplemental Disclosures				
Interest paid	$ -	$ -	$ -	$ -
Income taxes paid	$ -	$ -	$ -	$ (20)

See independent auditor's report and accompanying notes.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 (AUDITED) AND 2015 (REVIEWED)

1. THE ASSOCIATION

Talavera Owners Association (the Association) is a common interest development located in Santa Clara, California which consists of 52 residential units and certain common area property. The Association was organized as a nonprofit mutual-benefit corporation in May 2000 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, usually payable in equal monthly installments, to provide funds for operating expenses and major repairs and replacements. In addition to regular annual assessments, special and/or emergency assessments may be imposed by the Association's Board Of Directors, under certain circumstances without member approval. Any excess assessments at year end are retained by the Association for use in the succeeding year. Revenues and expenses and information about future major repairs and replacements are explained in greater detail in the annually-distributed pro forma operating budget (pursuant to California Civil Code Section 5300).

Assessments receivable at the balance sheet date represents the aggregate amount of assessments due from unit owners. The Association's policy is to retain a collection service and/or legal counsel and place liens on the properties of owners whose assessments are delinquent. In certain instances, foreclosure may be necessary. The collection process is explained in greater detail in the annually distributed annual statement of collection procedure (pursuant to California Civil Code Section 5730). Because of these collection procedures, the Board believes that, subject to a reasonable allowance for doubtful accounts, if any, all assessments are collectible. The estimate of allowance for doubtful accounts, if any, is based, generally, on amounts past due greater than 90 to 120 days.

See independent auditor's report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 December 31, 2016 totaled approximately $-0-.

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.

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 may elect to be taxed as either a regular corporation or as a homeowners association. In the former instance, it is taxed at graduated rates from 15% to 39% on net nonmember income; in the latter case it is taxed on net nonexempt function income (which is generally similar to net nonmember income) at a flat 30% rate. 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.

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.

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).

See independent auditor's report.

4. 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.

5. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 8, 2017, the date that the financial statements were available to be issued.

TALAVERA OWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2016 (UNAUDITED)

The following information on common area major components was compiled by Applied Reserve Analysis of San Rafael, California **as of July 2015** and has served as the basis for the current estimates of replacement reserve funding:

ACCOUNT NUMBER	COMPONENT	ESTIMATED REPLACEMENT COST	ESTIMATED USEFUL LIFE	ESTIMATED REMAINING LIFE	ESTIMATED BEGINNING FUND BALANCE	ESTIMATED NECESSARY BALANCE ON COMPONENT FUNDING BASIS
90900	Paint - Metal	1,545	5	3	690	618
90300	Asphalt - Overlay	98,172	25	8	75,160	66,757
90200	Asphalt, Seal Coat ,Stripe,Rprs	14,060	25	1	15,196	13,497
90600	Concrete - Repair	5,150	10	7	1,739	1,545
92000	Monument Signs	12,360	30	19	5,102	4,532
91900	Mailboxes	6,798	25	8	5,205	4,623
91500	Lighting - Landscape	1,185	25	8	907	805
91400	Lighting - Street Light Fixtures	45,578	25	8	34,894	30,993
91600	Irrigation Controllers	2,936	16	2	2,864	2,544
91800	Backflow Device	5,047	30	13	3,220	2,860
92300	Tree Trimming	4,120	2	0	4,639	4,120
92400	Pergola - Wood	6,180	20	5	5,218	4,635
92200	Reserve Study	1,545	3	1	1,160	1,030
95000	Contingency -3%	0	1	0	0	0
	TOTALS	204,674			156,000	138,559

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 **1/2%** on replacement fund cash balances and an annual **inflation rate** of **3%** on major component replacement costs. The replacement fund **cash** and investment balances at December 31, 2016 totaled **$159,069**. The estimated **liability** for major repairs and replacements at this date totaled approximately **$139,000**. The portion of **2017** regular **assessments** budgeted to be allocated to the replacement fund totals **$13,188**.

See independent auditor's report and accompanying notes.