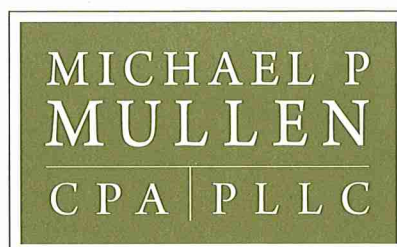


THE JONATHAN ASSOCIATION, INC.

CHASKA, MINNESOTA

**INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED DECEMBER 31, 2018



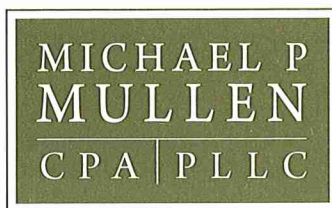
THE JONATHAN ASSOCIATION, INC.
FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Jonathan Association, Inc.
Chaska, Minnesota

We have audited the accompanying financial statements of The Jonathan Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses, and changes in fund balance 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.

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 The Jonathan Association, Inc. as of December 31, 2018, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on pages 9-12 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. 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.

A handwritten signature in black ink, appearing to read "Michael P. Mullen, CPA, PLLC".

Michael P. Mullen, CPA, PLLC

Minneapolis, Minnesota
February 18, 2019

CERTIFIED PUBLIC ACCOUNTANTS | LICENSED IN MINNESOTA, WISCONSIN AND FLORIDA
FLORIDA LICENSED COMMUNITY ASSOCIATION MANAGER



THE JONATHAN ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<u>ASSETS</u>			
Cash	\$ 732,580	\$ 323,020	\$ 1,055,600
Certificates of deposit		249,769	249,769
Assessments receivable-net	38,025		38,025
Prepaid expenses	8,444		8,444
Due from replacement	10,047		10,047
Land	238,799		238,799
Property and equipment	162,808		162,808
Less accumulated depreciation	(134,118)		(134,118)
TOTAL ASSETS	\$ 1,056,585	\$ 572,789	\$ 1,629,374
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 16,530	\$ 10,070	\$ 26,600
Prepaid assessments	314,432		314,432
Deferred revenue	3,980		3,980
Due to operating		10,047	10,047
TOTAL LIABILITIES	334,942	20,117	355,059
FUND BALANCE	721,643	552,672	1,274,315
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,056,585	\$ 572,789	\$ 1,629,374

The accompanying notes are an integral
part of these financial statements

THE JONATHAN ASSOCIATION, INC.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUE			
Assessments	\$ 503,213	\$ 385,200	\$ 888,413
Easement	31,000		31,000
Other	68,466		68,466
Interest	3,644	4,684	8,328
Total Revenue	606,323	389,884	996,207
EXPENSES			
Management fees	41,328		41,328
Rubbish removal	4,661		4,661
Depreciation	5,689		5,689
Bad debts	94		94
Insurance	29,557		29,557
Utilities	12,285		12,285
Professional fees	96,503		96,503
Labor and related	162,125		162,125
Property taxes	11,287		11,287
Office and administrative	42,272		42,272
Lawn care and snow removal	156,445		156,445
Repair and maintenance	27,360		27,360
Replacement expenses		245,655	245,655
Total Expenses	589,606	245,655	835,261
EXCESS OF REVENUE OVER EXPENSES	16,717	144,229	160,946
FUND BALANCE AT 12/31/17	683,129	430,240	1,113,369
INTERFUND TRANSFER	21,797	(21,797)	-
FUND BALANCE AT 12/31/18	\$ 721,643	\$ 552,672	\$ 1,274,315

The accompanying notes are an integral
part of these financial statements

THE JONATHAN ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from owners	\$ 677,789	\$ 385,200	\$ 1,062,989
Easement proceeds	31,000		31,000
Insurance claim proceeds	3,980		3,980
Cash paid to providers	(580,813)	(235,585)	(816,398)
Interest received	3,644	4,684	8,328
Net cash provided by operating activities	<u>135,600</u>	<u>154,299</u>	<u>289,899</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase equipment	(21,797)		(21,797)
Reinvested interest		(3,487)	(3,487)
Purchase certificates of deposit		(123,141)	(123,141)
Redeem certificate of deposit		123,347	123,347
Net cash (used in) investing activities	<u>(21,797)</u>	<u>(3,281)</u>	<u>(25,078)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund transfer	21,797	(21,797)	-
Interfund borrowing	(10,047)	10,047	-
Net cash provided by (used in) financing activities	<u>11,750</u>	<u>(11,750)</u>	<u>-</u>
NET INCREASE IN CASH	125,553	139,268	264,821
CASH AT BEGINNING OF YEAR	<u>607,027</u>	<u>183,752</u>	<u>790,779</u>
CASH AT END OF YEAR	\$ <u><u>732,580</u></u>	\$ <u><u>323,020</u></u>	\$ <u><u>1,055,600</u></u>
The following schedule reconciles the excess of revenue over expenses to net cash provided by operating activities:			
Excess of revenue over expenses	\$ <u>16,717</u>	\$ <u>144,229</u>	\$ <u>160,946</u>
Depreciation	5,689		5,689
Bad debts	94		94
Decrease in assessments receivable	50,561		50,561
(Increase) in prepaid expenses	(1,708)		(1,708)
Increase in accounts payable	4,719	10,070	14,789
Increase in prepaid assessments	55,548		55,548
Increase in deferred revenue	3,980		3,980
Total adjustments	<u>118,883</u>	<u>10,070</u>	<u>128,953</u>
Net cash provided by operating activities	\$ <u><u>135,600</u></u>	\$ <u><u>154,299</u></u>	\$ <u><u>289,899</u></u>

The accompanying notes are an integral
part of these financial statements

THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 - ORGANIZATION

The Jonathan Association, Inc. (Association) is a Minnesota nonprofit corporation legally organized as a homeowners association. The Association was incorporated on June 2, 1971 and is responsible for maintaining and preserving the common property within the Jonathan New Town development.

NOTE 2 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 18, 2019, the date that the financial statements were available to be issued.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting

The Association's governing documents provide certain guidelines regarding its financial activities. Therefore, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds:

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Interest earned

The Board's policy is for interest to remain in the fund in which it is earned.

Member Assessments

Association members are subject to either annual or monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year-end are retained by the Association for use in future years.

THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Cash and Certificates of Deposit

The Association maintains cash in checking and savings accounts. The Association also holds four certificates of deposit totaling \$249,769, with varying dates of maturity. Separate cash bank accounts are maintained for each fund. The Association considers all highly liquid investments with an original maturity of three months or less as cash.

Assessments Receivable

Assessments receivable at the balance sheet date totals \$91,929 and represents amounts due from unit owners. These past due balances include, but are not limited to, amounts for monthly assessments, late fees, legal collection fees and other various charges. Owner bankruptcy, unit foreclosure, conciliation court action and/or probate have contributed to the high delinquency amount.

As a result, the Board has established an allowance for doubtful accounts in the amount of \$53,904 that is netted against assessments receivable as shown on the Balance Sheet. The Association's policy is to charge a late fee, retain legal counsel and place liens on the property of homeowners whose assessments are delinquent. This may involve foreclosure on the property after other attempts of collection have failed.

Property and Equipment

The Association's policy is to capitalize all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units.

Examples of capitalized property and equipment consists of common personal property and common real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members on the basis of usage or from nonmembers.

Examples of property not capitalized consist of sidewalks, access roads, and greenbelts. Property and equipment acquired by the Association are recorded at cost and is being depreciated over its estimated useful life using the straight line method. Real property (land) contributed to the Association by the developer is recorded at estimated fair value at the date of contribution, and is not depreciated.

THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4 - INCOME TAXES

The Association is an exempt organization under Section 501(c)(4) of the Internal Revenue Code. Under that code the Association pays income taxes only on income generated from unrelated business activities. During the year, the Association did not have income from such activities. For the year ended December 31, 2018, the Association filed form 990.

The Association's tax returns for the past three years remain open for examination by taxing authorities.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents contain provisions to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate \$552,672 at December 31, 2018, are generally not available for operating purposes.

In 2017, the Association hired an outside firm to update the study, which estimates the remaining useful lives for all of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Estimates were determined based on industry information available to them, along with prior experience and inspection of the property.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to pass special assessments or delay replacement or maintenance until funds are available. Special assessments require assent of two-thirds of the vote of each class of members. The effect on future assessments has not been determined at this time.

NOTE 6 - DEFERRED REVENUE

Insurance claim proceeds of \$3,980 have been recorded as deferred revenue and will be recognized as related expenses are incurred.

NOTE 7 - EASEMENT

In 2018, the association received \$31,000 from Carver County for a permanent easement of common area land. The permanent easement allowed the county to widen the road adjacent to the property.

SUPPLEMENTARY INFORMATION

THE JONATHAN ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

In 2017, the Association hired an outside firm to update the study, which estimates the remaining useful lives for all of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Estimates were determined based on industry information available to them, along with prior experience and inspection of the property.

Estimated current replacement costs and estimated remaining useful lives have not been revised since the date of the study and do not take into account the effects of any expenditures or differences in the estimates.

The total replacement fund balance at December 31, 2018 is \$552,672. The board has not allocated the replacement fund balance to each component.

The attached schedule is based on the study and presents significant information about the components of common property.

RESERVE EXPENDITURES

The Jonathan
Association
Chaska, Minnesota

Explanatory Notes:

- 1) 1.8% is the estimated future inflation rate for estimating future replacement costs.
2) FY2016 is Fiscal Year beginning January 1, 2016 and ending December 31, 2016.

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Life Analysis, Years		Costs, \$		RUL = 0																	
					1st Year of Event	Estimated Useful	Unit (2016)	Total (2016)	FY2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031		
Neighborhood #1 Elements																										
1.350	1	1 Each		Bus Shelter, Wood, Refurbishment	2024	10 to 20	8	3,000.00	3,000	3,000	8,404															
1.650	5	5 Each		Mailbox Stations, Metal	2028	10 to 25	12	1,800.00	9,000	9,000	11,148															
1.660	1	1 Each		Playground Equipment	2027	15 to 25	11	28,000.00	28,000	28,000	81,943															
1.790	360	360 Square Feet		Retaining Wall, Masonry	2045	10 to 35	29	42.00	15,120	15,120	25,365															
1.810	1	1 Each		Signage	2031	15 to 20	15	750.00	750	750	2,261															
Neighborhood #2 Elements																										
2.650	1	1 Each		Mailbox Station, Metal	2032	10 to 25	16	1,800.00	1,800	1,800	2,395															
2.810	1	1 Each		Signage	2031	15 to 20	15	750.00	750	750	2,261															
Neighborhood #3 Elements																										
3.350	1	1 Each		Mail Pavilion, Wood, Refurbishment	2019	10 to 20	3	3,500.00	3,500	3,500	8,968															
3.600	3	3 Each		Mailboxes	2019	10 to 20	3	1,600.00	4,800	4,800	12,299															
3.660	1	1 Each		Playground Equipment	2018	15 to 25	2	30,000.00	30,000	30,000	73,952															
3.810	1	1 Each		Signage	2031	15 to 20	15	750.00	750	750	2,261															
Neighborhood #4 Elements																										
4.350	1	1 Each		Mail Pavilion, Wood, Refurbishment	2019	10 to 20	3	4,000.00	4,000	4,000	10,249															
4.600	4	4 Each		Mailboxes	2019	10 to 20	3	1,400.00	5,600	5,600	14,349															
4.650	3	3 Each		Mailbox Stations, Metal	2032	10 to 25	16	1,600.00	4,800	4,800	6,386															
4.660	1	1 Each		Playground Equipment	2030	15 to 25	14	22,000.00	22,000	22,000	38,242															
4.810	1	1 Each		Signage	2031	15 to 20	15	750.00	750	750	2,261															
Neighborhood #5 Elements																										
5.350	1	1 Each		Mail Pavilion, Wood, Refurbishment	2024	10 to 20	8	3,500.00	3,500	3,500	9,805															
5.600	1	1 Each		Mailboxes	2024	10 to 20	8	7,000.00	7,000	7,000	19,609															
5.660	1	1 Each		Playground Equipment	2030	15 to 25	14	40,000.00	40,000	40,000	51,349															
5.810	1	1 Each		Signage	2031	15 to 20	15	750.00	750	750	2,261															
Neighborhood #6 Elements																										
6.100	600	600 Square Yards		Asphalt Pavement, Basketball Court, Total Replacement	2017	15 to 20	1	39.50	23,700	23,700	57,390															
6.350	3	3 Each		Bus Shelter and Mail Pavilions, Wood, Refurbishment	2019	10 to 20	3	3,500.00	10,500	10,500	26,904															
6.600	1	1 Each		Mailboxes	2019	10 to 20	3	1,600.00	1,600	1,600	4,100															
6.650	3	3 Each		Mailbox Stations, Metal	2032	10 to 25	16	1,800.00	5,400	5,400	7,184															
6.660	1	1 Each		Playground Equipment	2021	15 to 25	5	19,000.00	19,000	19,000	49,412															
6.810	2	2 Each		Signage	2031	15 to 20	15	750.00	1,500	1,500	4,522															
6.820	1	1 Allowance		Signage, Monument, Masonry, Refurbishment	2025	15 to 20	9	3,500.00	3,500	3,500	9,982															

See Independent Auditor's Report

RESERVE EXPENDITURES

The Jonathan
Association
Chaska, Minnesota

Explanatory Notes:
1) 1.8% is the estimated future inflation rate for estimating future replacement costs.
2) FY2016 is Fiscal Year beginning January 1, 2016 and ending December 31, 2016.

CHS&A, Minnesota										Life Analysis, Years										Costs, \$									
Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Years		Unit (2016)	Per Phase (2016)	Total (2016)	30-Year Total (Inflated)	RUL = 0 FY2016	1 2017	2 2018	3 2019	4 2020	5 2021	6 2022	7 2023	8 2024	9 2025	10 2026	11 2027	12 2028	13 2029	14 2030	15 2031		
						Useful	Remaining																						
Neighborhood #7 Elements																													
7.360	1	1 Each	Mail Pavilion, Wood, Refurbishment		2019	to 20	3	4,500.00	4,500	4,500	11,530				4,747														
7.600	15	15 Each	Mailboxes		2019	to 20	3	1,600.00	24,000	24,000	61,494				25,319														
7.660	2	2 Each	Playground Equipment		2029	15 to 25	13	34,000.00	68,000	68,000	85,749																		
7.810	3	3 Each	Signage		2031	15 to 20	15	750.00	2,250	2,250	6,783																		
Neighborhood #8 Elements																													
8.360	1	1 Each	Mail Pavilions, Wood, Refurbishment		2019	to 20	3	3,500.00	3,500	3,500	8,968				3,692														
8.600	7	7 Each	Mailboxes		2019	to 20	3	1,600.00	11,200	11,200	28,688				11,816														
8.660	1	1 Each	Playground Equipment		2027	15 to 25	11	35,000.00	35,000	35,000	101,305																		
8.790	400	400 Square Feet	Retaining Walls, Stone Masonry (Replace with Interlocking Masonry)		2019	to 35	3	48.00	19,200	19,200	20,256				20,256														
8.810	1	1 Each	Signage		2031	15 to 20	15	750.00	750	750	2,261																		
Neighborhood #9 Elements																													
9.360	1	1 Each	Mail Pavilions, Wood, Refurbishment		2019	to 20	3	3,000.00	3,000	3,000	7,687				3,165														
9.600	3	3 Each	Mailboxes		2019	to 20	3	2,000.00	6,000	6,000	15,374				6,330														
9.660	1	1 Each	Playground Equipment		2027	15 to 25	11	35,000.00	35,000	35,000	101,305																		
9.810	2	2 Each	Signage		2031	15 to 20	15	750.00	1,500	1,500	4,522																		
Neighborhood #10 (Tuscan Hills) Elements																													
10.360	3	3 Each	Mail Pavilions, Wood, Refurbishment		2019	to 20	3	4,000.00	12,000	12,000	30,748				12,660														
10.600	8	8 Each	Mailboxes		2019	to 20	3	1,700.00	13,600	13,600	34,847				14,348														
10.660	1	1 Each	Playground Equipment		2027	15 to 25	11	30,000.00	30,000	30,000	86,833																		
10.820	1	1 Allowance	Signage, Monument, Stucco and Masonry, Refurbishment		2018	15 to 20	2	7,500.00	7,500	7,500	18,877				7,772														
Neighborhood #11 (Victory Way) Elements																													
11.360	3	3 Each	Mail Pavilions, Wood, Refurbishment		2024	to 20	8	3,500.00	10,500	10,500	29,414																		
11.600	16	16 Each	Mailboxes		2024	to 20	8	1,700.00	27,200	27,200	76,197																		
11.650	2	2 Each	Mailbox Stations, Metal		2019	to 25	3	1,800.00	3,600	3,600	9,731				3,798														
11.660	2	1 Each	Playground Equipment, Phased		2027	15 to 25	11 to 14	25,500.00	25,500	51,000	106,543																		
11.790	120	120 Square Feet	Retaining Walls, Masonry		2034	to 35	18	42.00	5,040	5,040	6,948																		
11.810	2	2 Each	Signage, Metal with Masonry		2031	15 to 20	15	1,000.00	2,000	2,000	6,030																		
11.820	1	1 Allowance	Signage, Monument, Wood and Concrete, Refurbishment		2024	15 to 20	8	3,500.00	3,500	3,500	9,805																		
Neighborhood #12 (Heather Ridge) Elements																													
12.360	2	2 Each	Mail Pavilions, Wood, Refurbishment		2024	to 20	8	3,500.00	7,000	7,000	19,609																		
12.600	4	4 Each	Mailboxes		2024	to 20	8	1,800.00	7,200	7,200	20,170																		
12.660	1	1 Each	Playground Equipment		2027	15 to 25	11	25,000.00	25,000	25,000	72,360																		
12.820	1	1 Allowance	Signage, Monument, Masonry, Refurbishment		2026	15 to 20	10	6,000.00	6,000	6,000	17,419																		

RESERVE EXPENDITURES

The Jonathan
Association
Chaska, Minnesota

Explanatory Notes:

- 1) 1.8% is the estimated future inflation rate for estimating future replacement costs.
2) FY2016 is Fiscal Year beginning January 1, 2016 and ending December 31, 2016.

Line Item	Total Quantity	Per Phase Quantity	Units	Reserve Component Inventory	Estimated 1st Year of Event	Life Analysis, Years		Unit	Costs, \$		30-Year Total (Inflated)	RUL = 0 FY2016																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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