



OAK SHORES COMMUNITY ASSOCIATION

**Auditors' Report
Financial Statements
and
Supplemental Information
*December 31, 2010***

SIEBERT BOTKIN HICKEY & ASSOCIATES, LLP
Certified Public Accountants



***Siebert Botkin Hickey
& Associates, LLP***

Board of Directors and Members

Oak Shores Community Association
Bradley, CA

Independent Auditors' Report

We have audited the accompanying balance sheet of Oak Shores Community Association as of December 31, 2010 and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of Oak Shores Community Association as of December 31, 2010 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. The Supplemental Information included in the accompanying schedules is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

SBH & Associates LLP, CPAs

January 27, 2011
Palm Springs, CA

Oak Shores Community Association

Balance Sheet

As of December, 31, 2010

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 587,899	\$ 1,071,260	\$ 1,659,159
Cash, Restricted for Member Deposits	21,970	-	21,970
Assessments Receivable, Net of Allowance of Bad Debts of \$31,839	7,174	-	7,174
Other Owner Receivables, Net of Allowance of Bad Debts of \$29,796	1,737	-	1,737
Prepaid Insurance	23,070	-	23,070
Prepaid Income Tax	1,207	-	1,207
Other Prepaid Expenses	14,276	-	14,276
Property and Equipment, Net of Accumulated Depreciation of \$144,854	26,776	-	26,776
Due To / From Other Fund	(949)	949	-
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 683,160	\$ 1,072,209	\$ 1,755,369
<u>LIABILITIES</u>			
Accounts Payable	\$ 15,666	\$ 272	\$ 15,938
Accrued Payroll and Related Items	6,191	-	6,191
Accrued Vacation	6,675	-	6,675
Prepaid Assessments	267,259	-	267,259
Prepaid Owner Fees	49,039	-	49,039
Deferred Revenue	-	4,500	4,500
Refundable Deposits	23,735	-	23,735
	<hr/>	<hr/>	<hr/>
Total Liabilities	368,565	4,772	373,337
<u>FUND BALANCES</u>			
Fund Balances	314,595	1,067,437	1,382,032
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Total Liabilities and Fund Balances	\$ 683,160	\$ 1,072,209	\$ 1,755,369

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended December, 31, 2010

	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Regular Assessments	\$ 867,570	\$ 388,506	\$ 1,256,076
Rubbish Fee Income	172,535	-	172,535
Owner Rental Fee	25,297	-	25,297
Watercraft Fees	57,575	-	57,575
Owner Fee Income	60,074	-	60,074
Interest Income	616	8,164	8,780
Other Income	2,195	-	2,195
Legal Fees Reimbursement	49,721	-	49,721
Insurance Claim Proceeds	-	14,437	14,437
Total Revenues	1,235,583	411,107	1,646,690
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	80,168	-	80,168
Legal Fees	58,009	-	58,009
Outside Services	60,055	-	60,055
Vehicles and Transportation	26,768	-	26,768
Printing and Reproductions	17,127	-	17,127
Supplies	10,201	-	10,201
Postage and Delivery	6,539	-	6,539
Income Taxes	1,405	-	1,405
Accounting and Audit	6,000	-	6,000
Dues and Subscriptions	568	-	568
Permits and Fees	2,047	-	2,047
Miscellaneous Administrative	22,935	-	22,935
<u>Personnel Expenses</u>			
Payroll and Related Items	463,818	-	463,818
Payroll Taxes	42,274	-	42,274
Employee Benefits	76,235	-	76,235
<u>Utilities</u>			
Rubbish	174,984	-	174,984
Water and Fire Hydrants	87,404	-	87,404
Electricity and Propane	33,314	-	33,314
Telephone and Communication	16,045	-	16,045
Repairs and Maintenance	62,888	-	62,888
Major Repairs and Replacements	-	78,206	78,206
Depreciation	12,233	-	12,233
Bad Debt Expense	9,005	1,353	10,358
Total Expenses	1,270,022	79,559	1,349,581
Excess (Deficiency) of Revenues Over Expenses	(34,439)	331,548	297,109
Fund Balances, Beginning of Year	349,034	745,689	1,094,723
Prior Period Adjustment	-	(9,800)	(9,800)
Fund Balances, Beginning of Year Restated	349,034	735,889	1,084,923
Fund Balances, End of Year	\$ 314,595	\$ 1,067,437	\$ 1,382,032

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Statement of Cash Flows

For the Year Ended December, 31, 2010

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ (34,439)	\$ 331,548	\$ 297,109
<u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u>			
Depreciation	(12,233)	-	(12,233)
Bad Debt Expense	9,005	1,353	10,358
<u>Change in Assets and Liabilities:</u>			
Change in Assessments Receivable	13,010	-	13,010
Change in Special Assessment Receivable	-	2,015	2,015
Change in Other Owner Receivables	(3,134)	-	(3,134)
Change in Prepaid Insurance	13,872	-	13,872
Change in Prepaid Income Taxes	2,866	-	2,866
Change in Property Plant and Equipment, Net	(3,534)	-	(3,534)
Change in Accounts Payable	12,354	272	12,626
Change in Accrued Payroll and Related Items	1,269	-	1,269
Change in Accrued Vacation	2,253	-	2,253
Change in Prepaid Assessments	(59,138)	-	(59,138)
Change in Prepaid Owner Fees	49,039	-	49,039
Change in Deferred Revenue	-	(5,300)	(5,300)
Change in Refundable Deposits	(15,770)	-	(15,770)
Total Adjustments	9,859	(1,660)	8,199
Cash Provided (Used) By Operations	(24,580)	329,888	305,308
<u>Cash Flows from Financing Activities:</u>			
Net Borrowing Between Funds	899	(899)	-
Cash Provided (Used) By Financing Activities	899	(899)	-
Net Increase (Decrease) In Cash	(23,681)	328,989	305,308
Cash, Beginning of Year	633,550	742,271	1,375,821
Cash, End of Year	\$ 609,869	\$ 1,071,260	\$ 1,681,129

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Oak Shores Community Association was incorporated in May of 1970. The Association is responsible for the maintenance and operation of the common areas of a 851 lot planned development with approximately 626 homes located on Lake Nacimiento in the City of Bradley, California.

Accounting Method

The Association maintains its books of account on the modified-accrual basis of accounting for internal purposes, and the accrual method of accounting for external purposes. Under the accrual method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association has segregated its activities into two funds; the operating fund, and the replacement fund.

The operating fund accounts for all current operating transactions of the Association. The Association has chosen to report separately the portion of the operating fund that represents an investment in fixed assets. This amount is shown in the operating fund as Designated for Fixed Assets.

The replacement fund accounts for member capital contributions, which are accumulated in separate bank accounts to provide for the future repair and replacement of the Association's common areas (see Note 2).

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less. The Association maintains bank accounts at financial institutions within the County of San Luis Obispo, and brokerage accounts with brokers nationwide.

Assessments Receivable and Prepaid Assessments

The Association uses the allowance method of recording bad debts. The Association has the right to levy liens on a member's property to ensure payment of an assessment due the Association.

Assessments receivable, as reflected in the financial statements, are from members whose units are located within the City of Bradley.

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

Property, Equipment and Depreciation

Real property common areas acquired by the Association from the developer are not capitalized on the Association financial statements. Although such property is owned by the Association, it is not severable and saleable at the Board's discretion without member approval. Replacements and improvements to the real property and common areas are also not capitalized.

Personal property acquired by the Association from the developer is not capitalized on the Association financial statements as the value is not readily determinable. Personal property purchased with Association funds, to which the Association holds the title, is capitalized at cost and depreciated over the estimated useful lives of the items purchased, using straight line or accelerated methods of depreciation.

Furniture and Fixtures	\$ 4,537
Machinery and Equipment	55,054
Vehicles	112,039
Total Fixed Assets	<u>171,630</u>
Less Accumulated Depreciation	<u>(144,854)</u>
Net Fixed Assets	<u>\$ 26,776</u>

Common areas are restricted to use by Association members, their tenants, and Association guests. The Association is responsible for the preservation and maintenance of the common areas. Common area property not capitalized on the financial statements consists of the pool and related improvements, roads, greenbelts, and building structures.

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 reported amounts of revenues and expenses during the reporting period. Estimates included in the preparation of these financial statements include estimated bad debts, and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

Lines of Business

The Association conducts only one line of business, which is the providing of management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2010

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:

The Association's governing documents require funds to be accumulated for the replacement of its common areas and for general operations. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

It is the Association's policy to fund its reserves on a quarterly basis. The Association annually reviews its reserve funding program. The last review was performed as part of the budget process for the current year. California Civil Code Section 1365 et.seq. mandates certain requirements for disclosure of the reserve funding program by the Association to its members. The Association believes that it has complied in all material respects with these requirements.

Actual expenditures may vary from estimated amounts and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. The Association updates cost data annually.

Cash balances in amounts equal to the designated capital reserves represent cash restricted for this purpose only.

NOTE 3 - INCOME TAXES:

The Association qualifies as a tax exempt Homeowners Association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance and care of Association property. The net nonexempt income from earned interest is taxed at 30% by the Federal Government, if the Association elects to file Form 1120-H.

Alternatively, the Association may be classified as a non exempt membership organization for federal income tax purposes. In general, the Association is then required to classify its taxable income and deductions between member activities, non member activities, and capital transactions (for capital replacement fund components). The Association is subject to specific rulings and regulations applicable to non exempt membership organizations. The Association is taxed on all net income from non member activities, reduced only by losses from non member activities for which a profit motive exists. Non member income may not be offset by member losses, and any net member losses may only be carried forward to offset member income of future tax periods. Any net member income not applied to the subsequent tax year is subject to taxation. Under this tax method, the Association files Form 1120, with tax rates applicable to Association net taxable income based on a graduated rate table with rates of 15% to 39%.

For California State income tax purposes, the Association is taxed on all net income from non member activities reduced only by losses from non member activities for which a profit motive exists. Non member income may not be offset by member losses. Any net member income is not subject to taxation. The tax rate for Association net taxable income is 8.84%.

NOTE 4 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$250,000. Funds maintained in brokerage accounts are not federally insured, but are privately insured by the SIPC (Securities Investors Protection Corporation).

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2010

NOTE 5 – DEFERRED REVENUE:

Revenue for the impact fees is recognized when construction is initiated on the owner's property. Until that time impact fees collected are recorded as deferred revenue.

NOTE 6 – CONTINGENCIES:

The Association is a defendant in an action brought by three members of the Association. The case involves allegations from these members that the Association is inappropriately charging fees and assessments on a variety of issues in which the plaintiffs believe the Association is not authorized to assess. Such fees and assessments include, but are not limited to, fees for garbage collection, annual rental fees, and boat fees. The Association is being defended by its insurance carrier. The Association believes the above claims to be without merit.

In addition, the plaintiffs have amended their complaint attempting to certify a class with respect to the issue of association fees. If plaintiffs were to prevail, the financial impact to the Association will be significant, because the plaintiffs are

seeking not only the termination of the above fees, but the reimbursement to the members for all such fees collected over a period of years.

The Association has filed a cross-complaint against the above plaintiffs for the payment of the above mentioned fees.

The case is scheduled for trial for March 2011.

NOTE 8 – PRIOR PERIOD ADJUSTMENT:

The Association's financial statements required a prior period adjustment to restate beginning balances and adjust amounts affecting prior fiscal years. The accounts adjusted were deferred revenue and impact fees. The prior period adjustment resulted in a decrease to the replacement fund balance in the amount of \$9,800.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2010
(unaudited)

The Board of Directors commissioned a study in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. Funding has been provided using a pooled calculation with provisions for inflation of 2% and net interest earnings of 1%.

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

Component	Remaining Useful Lives	Current Replacement Cost	12/31/10 Balance *	2011 Annual Funding
Roofing	1-15 Yrs.	\$ 43,110	\$ -	\$ 2,474
Painting	1-4 Yrs.	29,735	-	5,192
Paving	1-18 Yrs.	3,321,950	-	301,061
Security/Fencing	3-24 Yrs.	61,570	-	4,857
Clubhouse	1-15 Yrs.	141,700	-	14,204
Pool Area	1-21 Yrs.	69,873	-	7,912
Community Entrance	1-24 Yrs.	39,500	-	2,141
Campground	1-10 Yrs.	37,200	-	3,279
Maintenance Shop	2-7 Yrs.	66,450	-	5,110
Vehicles	1-14 Yrs.	166,400	-	16,791
Marina	3-15 Yrs.	466,200	-	30,221
Totals		\$ 4,443,688	\$ 1,067,437	\$ 393,242

* Balance provided on a pooled basis.