



# **OAK SHORES COMMUNITY ASSOCIATION**

**Auditors' Report  
Financial Statements  
and  
Supplemental Information  
*December 31, 2009***

**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, 2009 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, 2009 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.

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

March 12, 2010  
Beaumont, CA

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# Oak Shores Community Association

## Balance Sheet

As of December, 31, 2009

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 595,805	\$ 742,271	\$ 1,338,076
Cash, Restricted for Member Deposits	37,745	-	37,745
Assessments Receivable, Net of Allowance of Bad Debts of \$30,402	21,621	-	21,621
Special Assessments Receivable, Net of Allowance of Bad Debts of \$5,997	-	3,368	3,368
Other Owner Receivables, Net of Allowance of Bad Debts of \$16,231	6,171	-	6,171
Prepaid Insurance	36,942	-	36,942
Prepaid Income Tax	4,073	-	4,073
Other Prepaid Expenses	14,276	-	14,276
Property and Equipment, Net of Accumulated Depreciation of \$132,621	11,009	-	11,009
Due To / From Other Fund	(50)	50	-
Total Assets	<u>\$ 727,592</u>	<u>\$ 745,689</u>	<u>\$ 1,473,281</u>
<b><u>LIABILITIES</u></b>			
Accounts Payable	\$ 3,312	\$ -	\$ 3,312
Accrued Payroll and Related Items	4,922	-	4,922
Accrued Vacation	4,422	-	4,422
Prepaid Assessments	326,397	-	326,397
Refundable Deposits	39,505	-	39,505
Total Liabilities	<u>378,558</u>	<u>-</u>	<u>378,558</u>
<b><u>FUND BALANCES</u></b>			
Fund Balances	<u>349,034</u>	<u>745,689</u>	<u>1,094,723</u>
Total Liabilities and Fund Balances	<u>\$ 727,592</u>	<u>\$ 745,689</u>	<u>\$ 1,473,281</u>

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, 2009

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total Funds</b>
<b><u>REVENUES</u></b>			
Regular Assessments	\$ 974,423	\$ 281,353	\$ 1,255,776
Rubbish Fee Income	168,406	-	168,406
Watercraft Fees	28,020	-	28,020
Owner Fee Income	60,529	5,995	66,524
Interest Income	1,141	3,898	5,039
Other Income	6,669	5,260	11,929
Total Revenues	1,239,188	296,506	1,535,694
<b><u>EXPENSES</u></b>			
<u>General and Administrative Expenses</u>			
Insurance	96,217	-	96,217
Legal Fees	26,094	-	26,094
Outside Services	40,502	-	40,502
Vehicles and Transportation	21,315	-	21,315
Printing and Reproductions	13,678	-	13,678
Supplies	10,556	-	10,556
Postage and Delivery	7,299	-	7,299
Income Taxes	372	-	372
Accounting and Audit	6,000	-	6,000
Dues and Subscriptions	425	-	425
Permits and Fees	2,073	-	2,073
Miscellaneous Administrative	27,213	-	27,213
<u>Personnel Expenses</u>			
Payroll and Related Items	403,599	-	403,599
Payroll Taxes	34,609	-	34,609
Employee Benefits	61,120	-	61,120
<u>Utilities</u>			
Rubbish	171,254	-	171,254
Water and Fire Hydrants	69,207	-	69,207
Electricity and Propane	28,765	-	28,765
Telephone and Communication	11,323	-	11,323
Repairs and Maintenance	41,389	-	41,389
Major Repairs and Replacements	-	78,603	78,603
Depreciation	8,885	-	8,885
Bad Debt Expense	4,657	-	4,657
Total Expenses	1,086,552	78,603	1,165,155
Excess of Revenues Over Expenses	152,636	217,903	370,539
Fund Balances, Beginning of Year	196,398	527,786	724,184
Fund Balances, End of Year	\$ 349,034	\$ 745,689	\$ 1,094,723

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, 2009

	Operating Fund	Replacement Fund	Total Funds
<b><u>Cash Flows From Operating Activities:</u></b>			
Excess of Revenues Over Expenses	\$ 152,636	\$ 217,903	\$ 370,539
<b><u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u></b>			
Depreciation	(8,885)	-	(8,885)
<b><u>Change in Assets and Liabilities:</u></b>			
Change in Assessments Receivable	(15,608)	-	(15,608)
Change in Special Assessment Receivable	-	39,691	39,691
Change in Other Owner Receivables	1,693	-	1,693
Change in Prepaid Insurance	(2,182)	-	(2,182)
Change in Prepaid Income Taxes	(194)	-	(194)
Change in Other Prepaid Expenses	1,663	-	1,663
Change in Property Plant and Equipment, Net	17,770	-	17,770
Change in Accounts Payable	(19,796)	-	(19,796)
Change in Accrued Payroll and Related Items	1,462	-	1,462
Change in Accrued Vacation	(204)	-	(204)
Change in Prepaid Assessments	165,723	-	165,723
Change in Refundable Deposits	(6,530)	-	(6,530)
Total Adjustments	134,912	39,691	174,603
Cash Provided By Operations	287,548	257,594	545,142
<b><u>Cash Flows from Financing Activities:</u></b>			
Net Borrowing Between Funds	50	(50)	-
Cash Provided (Used) By Financing Activities	50	(50)	-
Net Increase In Cash	287,598	257,544	545,142
Cash, Beginning of Year	345,952	484,727	830,679
Cash, End of Year	\$ 633,550	\$ 742,271	\$ 1,375,821
<b><u>Supplemental Information:</u></b>			
Cash Paid for Income Taxes	\$ 566	\$ -	\$ 566
Cash is presented in the balance sheet as follows:			
Cash and Cash Equivalents	\$ 595,805		
Cash, Restricted for Member Deposits	37,745		
Cash at End of Year	\$ 633,550		

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, 2009

**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.

The Association regularly receives assessments in advance of the billing date. These Assessments are classified as Prepaid Assessments and shown as a liability on the Association's Financial Statements.

**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	84,039
Total Fixed Assets	143,630
Less Accumulated Depreciation	(132,621)
Net Fixed Assets	\$ 11,009

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, 2009

***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, 2009

***NOTE 5 – SPECIAL ASSESSMENT AND DEFERRED  
SPECIAL ASSESSMENT:***

The Association special assessed its members in February of 2007. This special assessment was for the express purpose of repairing the road system within the Association. Members were assessed \$1,602 per lot, and members were given the option of paying all at once or on a payment plan. As of the year ending December 31, 2007, the association had billed the entire special assessment totaling \$1,363,302. As of the year ending December 31, 2009, the association has collected \$1,344,601 written off \$7,967 as uncollectable special assessments.

***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.

In addition to the action mentioned above, an action has been filed against the Association by a member of the Association. The member alleges that an Association's storm drain is trespassing upon his property. The action is being defended by counsel assigned by the Association's current insurer.

The board approved a 2009 special assessment of \$89.41 per home to be assessed only if needed on a date determined by the board. This assessment will be exclusively used for legal expenses arising from current litigations.

**Oak Shores Community Association**  
**Supplemental Information on Replacement Fund Balances**  
For the Year Ended December 31, 2009  
(unaudited)

The Board of Directors commissioned a study in 2009 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 3% and net interest earnings of 2%.

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

<b>Component</b>	<b>Remaining Useful Lives</b>	<b>Current Replacement Cost</b>	<b>12/31/09 Balance *</b>	<b>2010 Annual Funding **</b>
Roofing	1-16 Yrs.	\$ 37,700	\$ -	\$ 2,011
Painting	1-5 Yrs.	29,115	-	5,085
Paving	2-19 Yrs.	3,162,575	-	209,415
Security/Fencing	3-25 Yrs.	65,250	-	4,821
Clubhouse	1-14 Yrs.	135,020	-	12,098
Pool Area	1-22 Yrs.	67,660	-	6,751
Guard House	3-12 Yrs.	34,100	-	1,440
Campground	1-9 Yrs.	36,500	-	1,756
Maintenance Shop	1-8 Yrs.	73,500	-	5,141
Vehicles	2-14 Yrs.	143,200	-	13,757
Marina	2-16 Yrs.	468,000	-	26,231
<b>Totals</b>		<b>\$ 4,252,620</b>	<b>\$ 745,689</b>	<b>\$ 288,506</b>

\* Detail information is not provided in the study.

\*\* The Board of Directors is Funding \$288,506 for 2010