



OAK SHORES COMMUNITY ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information**
December 31, 2019

PORTER & LASIEWICZ, CPAs
Certified Public Accountants

Board of Directors and Members

Oak Shores Community Association
Bradley, CA

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of Oak Shores Community Association, a non-profit corporation, which comprise the balance sheet as of December 31, 2019, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to 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.

Auditors' 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 of 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 Oak Shores Community Association as of December 31, 2019, 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 regarding replacement fund balances on page 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.

Report on Supplementary Information

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenues and Expenses – Budget and Actual on page 13 and the Summarized Schedule of Private Marina Activity on page 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. It has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly we express no opinion on it.

Porter & Lasiewicz, CPAs

October 29, 2020

Simi Valley, California

Oak Shores Community Association

Balance Sheet

As of December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 609,489	\$ 681,993	\$ 1,291,482
Investments	-	1,458,801	1,458,801
Assessments Receivable, Net of Allowance for Bad Debts of \$20,039	39,318	-	39,318
Private Marina Receivable	837	-	837
Accrued Interest Receivable	-	6,933	6,933
Prepaid Insurance	46,580	-	46,580
Other Prepaid Expenses	24,494	-	24,494
Inventory	10,112	-	10,112
Property and Equipment, Net of Accumulated Accumulated Depreciation of \$253,738	496,974	-	496,974
Due To / From Other Fund	(13,940)	13,940	-
Total Assets	\$ 1,213,864	\$ 2,161,667	\$ 3,375,531
<u>LIABILITIES</u>			
Accounts Payable	\$ 4,112	\$ 62	\$ 4,174
Accrued Payroll and Related Items	22,807	-	22,807
Income Taxes Payable	2,588	-	2,588
Prepaid Assessments	247,767	-	247,767
Other Liabilities	30,116	1,500	31,616
Total Liabilities	307,390	1,562	308,952
<u>FUND BALANCES</u>			
Operating Fund Balance	906,474	-	906,474
Reserve Fund Balance	-	2,160,105	2,160,105
Total Fund Balance	906,474	2,160,105	3,066,579
Total Liabilities and Fund Balances	\$ 1,213,864	\$ 2,161,667	\$ 3,375,531

See Auditors' Report

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

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Oak Shores Community Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Assessments	\$ 1,236,111	\$ 442,520	\$ 1,678,631
Interest and Dividend Income	776	49,499	50,275
Rubbish Fee Income	209,995	-	209,995
Owner Rental Fees	44,425	-	44,425
Fire Department Rental Fees	7,170	-	7,170
Watercraft Fees	45,090	-	45,090
Owner Fee Income	25,218	-	25,218
Committee Revenues	27,520	-	27,520
Lease Fees from Private Marina	50,250	-	50,250
CAL Fire Grant Revenues	108,315	-	108,315
Gain on Insurance Recovery, Net	116,524	-	116,524
Other Income	53,442	2,500	55,942
Total Revenues	<u>1,924,836</u>	<u>494,519</u>	<u>2,419,355</u>
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	72,417	-	72,417
Legal Fees	23,720	-	23,720
Outside Services	35,588	-	35,588
Audit and Accounting	8,000	-	8,000
Income Taxes	19,273	-	19,273
Printing and Reproduction	11,205	-	11,205
Other General and Administrative	67,519	-	67,519
<u>Payroll and Related Costs</u>			
Salaries	573,274	-	573,274
Payroll Taxes	53,926	-	53,926
Insurance and Other Costs	94,508	-	94,508
<u>Utilities</u>			
Rubbish Service	213,346	-	213,346
Water and Fire Hydrants	189,589	-	189,589
Electricity and Propane	28,053	-	28,053
Telephone and Other	18,252	-	18,252
Depreciation	30,415	-	30,415
Committee Expenses	14,015	-	14,015
Private Marina Expenses	38,541	-	38,541
Transportation Costs	38,237	-	38,237
Maintenance and Repairs	44,425	-	44,425
Capital Spending	14,416	-	14,416
Grant Expenditures - Fire Prevention	108,315	-	108,315
Major Repairs and Replacements	-	1,136,797	1,136,797
Total Expenses	<u>1,697,034</u>	<u>1,136,797</u>	<u>2,833,831</u>
Excess (Deficiency) of Revenues Over Expenses	<u>227,802</u>	<u>(642,278)</u>	<u>(414,476)</u>
Fund Balances, Beginning of Year	516,193	2,960,390	3,476,583
Contributed Capital - Committee	4,472	-	4,472
Interfund Transfer of Assets	158,007	(158,007)	-
Fund Balances, End of Year	<u>\$ 906,474</u>	<u>\$ 2,160,105</u>	<u>\$ 3,066,579</u>

See Auditors' Report
The Notes to Financial Statements Are An Integral Part of This Statement
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Oak Shores Community Association

Statement of Cash Flows

For the Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 227,802</u>	<u>\$ (642,278)</u>	<u>\$ (414,476)</u>
<u>Adjustments to Reconcile (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:</u>			
Depreciation and Amortization	30,415	445	30,860
Write-off of Docks Destroyed in Storm	33,350	-	33,350
Insurance Recovery on Docks Destroyed in Storm	(149,809)	-	(149,809)
<u>Change in Assets and Liabilities:</u>			
(Increase) in Assessments Receivable	(10,178)	-	(10,178)
(Increase) in Other Receivables	(15,360)	-	(15,360)
Decrease in Private Marina Receivable	650	-	650
Decrease in Accrued Interest Receivables	-	5,340	5,340
Increase in Prepaid Insurance	(12,761)	-	(12,761)
(Increase) in Inventory	(4,156)	-	(4,156)
(Decrease) in Accounts Payable	(19,004)	(7,078)	(26,082)
(Decrease) in Accrued Payroll	(412)	-	(412)
Increase in Income Taxes Payable	2,163	-	2,163
(Decrease) in Prepaid Assessments	(165,976)	-	(165,976)
(Decrease) in Other Liabilities	(8,588)	-	(8,588)
Total Adjustments	<u>(319,666)</u>	<u>(1,293)</u>	<u>(320,959)</u>
Cash and Cash Equivalents (Used) By Operations	<u>(91,864)</u>	<u>(643,571)</u>	<u>(735,435)</u>
<u>Cash Flows from Investing Activities:</u>			
Purchase of Capitalizable Property and Equipment	(161,399)	(158,007)	(319,406)
Insurance Recovery	149,809	-	149,809
Maturity of Investments	-	877,000	877,000
Net Cash and Cash Equivalents Provided (Used) By Investing Activities	<u>(11,590)</u>	<u>718,993</u>	<u>707,403</u>
<u>Cash Flows from Financing Activities:</u>			
Capital Contributions	4,472	-	4,472
Loans to Operations	114,315	(114,315)	-
Repayment of Loans to Operations	(135,253)	135,253	-
Cash and Cash Equivalents Provided (Used) By Financing Activities	<u>(16,466)</u>	<u>20,938</u>	<u>4,472</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(119,920)	96,360	(23,560)
Cash and Cash Equivalents, Beginning of Year	729,409	585,633	1,315,042
Cash and Cash Equivalents, End of Year	<u>\$ 609,489</u>	<u>\$ 681,993</u>	<u>\$ 1,291,482</u>
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	<u>\$ 8,951</u>	<u>\$ -</u>	<u>\$ 8,951</u>
Transfer of Capitalized Assets	<u>\$ 158,007</u>	<u>\$ (158,007)</u>	<u>\$ -</u>

See Auditors' Report

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

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Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

The Oak Shores Community Association (the Association) was incorporated in May 1970. The Association is a common interest realty association and is responsible for the maintenance and operation of the common areas of an 851 lot planned development located on Lake Nacimiento in an unincorporated area of San Luis Obispo County near the town of Bradley, California. Assessments are levied semi-annually against each lot in the development.

The Association's Board of Directors is comprised of seven members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting for external financial reporting purposes. Under this 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, including those of the committees and Private Marina. The Operating Fund includes equity of the controlled committees and the Private Marina.

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 property, equipment, and common areas.

Committees

The combined financial statements include the accounts of the Association and the accounts of controlled committees and Private Marina that operate within the community. The controlled committees that operate within the community are:

Recreation Committee – The Recreation Committee is an organized group of volunteers who sponsor a number of community events each year including the Fireman's Ball, the July 4th Pancake Breakfast, the Labor Day Barbeque, the Memorial Day Celebration, the Halloween Party, the Christmas

Party, and the New Year's Eve Party. Funds are raised in these events from donations for food, drinks, and entertainment. The Recreation Committee also operates soda and ice vending machines at the clubhouse.

Funds in excess of expenses from the community events and operation of the vending machines are accumulated, and at the discretion of Recreation Committee funds may be used to purchase furniture and equipment for the community, to make improvements to community property, or as in 2018, net proceeds of \$4,419 were raised and contributed to NRWMAC (Nacimiento Regional Water Management Advisory Committee) to support its goal to maximize water levels in Lake Nacimiento throughout the summer.

Logos – Logos is a volunteer managed retail gift store operating at the back of the clubhouse. Logos sells Lake Nacimiento themed shirts/sweats, hats, stickers, and other merchandise. Funds in excess of operating expenses are combined with and are used similar to Recreation Committee funds.

Fishing Derby – The Fishing Derby is an annual event sponsored every spring by the Association. Funds in excess of entry fees, donations and other contributions are used to purchase gift prizes and certificates for participants. Generally, the Fishing Derby does not accumulate funds in excess of expenses with the intent to donate such funds to the Association. To date funds in excess of current spending have been carried over and spent on the Fishing Derby expenses and prizes for the following year.

Fire Wise Committee – The Fire Wise Committee is a volunteer group assembled to raise wildfire safety awareness in the Community through the development and use of educational programs and materials. The Fire Wise Committee may co-sponsor events with the Recreation Committee and share the funds raised.

Private Marina

The financial statements include the accounts of the "Private Marina," a group of Association members that lease slips in a portion of the marina designated as the "Private Marina." The Private Marina consists of 169 leased slips.

The docks and slips are located on Association common area property and are owned by the Association. Under the slip lease agreements, access to the docks and slips is restricted to lessees. The Private Marina is a financially self-sustaining operation and it operates without any financial assistance from the Association.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

Private Marina (continued)

Slip lease revenues are used to pay for all costs related to dock operations, including ongoing maintenance, repair, and eventual replacement of the private docks and slips, as well as certain administrative services and insurance costs paid to the Association, including an additional 10% to cover overhead related costs. Therefore, the Private Marina docks and slips have been purchased and built using lease revenues from the members of the Private Marina.

The Private Marina has its own reserve fund for future major repairs or replacement of the docks and slips. The docks and slips in the Private Marina are not funded by the Association's assessments nor are they included in the Association's reserve study.

The separate summarized balance sheet and statement of revenues and expenses included in the Operating Fund for the Private Marina Operations and the Private Marina Replacement Account, as of and for the year ended December 31, 2019, are presented in the Unaudited Summarized Schedule of Private Marina Activity on page 14 of this report.

The Private Marina docks and slips are leased to the members of the Private Marina. The cost of the Private Marina docks and slips, totaling \$738,852, is excluded from the Association's property and equipment due to the nature of the lease agreements with the members of the Private Marina and due to the fact that access to the Private Marina docks is restricted to the lessees.

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. Operating Fund cash and cash equivalents at December 31, 2019, includes \$125,812 of cash held by the controlled committees and the Private Marina.

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 privately insured by the SIPC (Securities Investors Protection Corporation) up to \$250,000 and amounts in excess of \$250,000 are privately insured by Lexington Insurance Company (an AIG Company).

Investments

The Association has various certificates of deposit maturing from February 2020 through February 2023. The certificates of deposit are classified as held to maturity investments and accordingly they are recorded at amortized cost. Unrealized losses on the certificates of deposit as of December 31, 2019 were \$22,937.

The Association's investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Assessments Receivable and Prepaid Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association derives the majority of its revenue from dues assessments that are levied against each lot within the development. Assessments receivable at December 31, 2019 represent amounts due from members whose property may be subject to lien and foreclosure.

The Association's collection policy includes, among other things, assessing a late charge and interest, and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association determines that an account is uncollectible, such as after bankruptcy or foreclosure proceedings.

The allowance for bad debt is an estimate based on an analysis of delinquent assessments receivable, historical collection activities, and existing economic conditions.

At December 31, 2019, assessments receivable consisted of:

Assessments Receivable	\$ 59,357
Allowance for Bad Debts	<u>(20,039)</u>
Net Assessments Receivable	<u>\$ 39,318</u>

Prepaid assessments represent amounts for the 2019 annual assessment paid in advance by members of the Association.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

Property and Equipment

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

It is the Association's policy that personal property is capitalized at cost and depreciated over the estimated useful lives of the items purchased using straight line or accelerated methods of depreciation.

Property and equipment capitalized on the financial statements consists of:

Furniture and Fixtures	\$ 4,450
Machinery and Equipment	84,246
Docks	537,028
Vehicles	<u>124,988</u>
Total Cost	750,712
Less: Accumulated Depreciation	(253,738)
Net Property and Equipment	<u>\$ 496,974</u>

Common area property not capitalized on the financial statements includes roads and parking lots, green belt areas, the clubhouse, main marina and west ramp, and the swimming pool.

Common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

Capital spending by the Operating Fund during 2019 consisted of the following:

Docks	\$ 149,809
Furniture	4,450
Machinery & Equipment	<u>7,140</u>
Total	<u>\$ 161,399</u>

In addition, the Replacement Fund purchased and transferred \$158,007 of assets to the Operating Fund during 2019. The transfers were a new dock for \$148,411 and a new camera system at the gate for \$9,566

Lines of Business

The Association conducts only one line of business, which is

providing management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

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.

Interest Income

The Association records interest income and related income tax liability in the respective fund holding the investments.

New Accounting Pronouncements

Revenue Recognition

On May 28, 2014, the FASB and the International Accounting Standards Board issued a converged standard on recognition of revenue from contracts with customers. FASB ASC 606, Revenue from Contracts with Customers was issued as a result of this convergence. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. ASC 606 revenue recognition guidance does not apply to contracts within the scope of other standards such as insurance and lease contracts. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2018.

NOTE 2 - REPLACEMENT FUND:

The Association's governing documents require funds to be accumulated for the major repair, maintenance, and replacement of its common areas. Funds accumulated are intended to provide for the cost of future replacement, repairs, and maintenance when it is estimated that such expenditures are necessary. From time to time, the Operating Fund may borrow from the Replacement Fund to finance certain projects or other costs. Such loans are repayable within 12 months from the date of the loan.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 2 - REPLACEMENT FUND: (continued)

The Association reviews its replacement funding program as part of the annual budget process. The Replacement Fund is funded quarterly based on the annual budget plan. In 2018, the Board self-prepared a detailed reserve study to update the estimated future funding requirements. The study used a pooled funding method that included an inflation factor of 2.20% to estimate future expenditures.

Actual expenditures may vary from the estimated amounts in the reserve study and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

Component Category	Cost
Road and slope repair	\$1,064,965
Clubhouse, including computers	16,937
Marina Dock	148,441
Community Entrance	26,776
Campground/Golf	33,345
Playground	10,310
Total Reserve Spending	\$1,300,774
Less: Assets Capitalized and transferred to Operations	(158,007)
Total Reserve Expenses	\$1,142,767

Assets transferred by the Replacement Fund to the Operating Fund totaled \$158,007 during 2019 and were comprised of a new dock and gangway for \$148,441 and a new camera system at the gate for \$9,566.

The assessments designated for major repairs and replacements during the year ended December 31, 2019 were \$442,520.

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.

Net non-exempt income from interest and other non-exempt activities is taxed at 30% by the Federal Government based upon the Association's election to file Form 1120-H.

For California State income tax purposes, the Association is taxed on all net income from nonmember activities. Net member income or losses are not subject to taxation. The tax rate for Association net taxable income is 8.84%.

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended December 31, 2019, no amount of interest or penalties were accrued.

Oak Shores Community Association's federal and state tax returns are open for examination for the years 2017, 2018, and 2019.

The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2019, the Association does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

The total tax provision for the year ended December 31, 2019 was \$19,273.

NOTE 4 - REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Association earns revenues from ancillary services including rental fees, rental income, watercraft fees, dock lease fees, and committee revenues, including product sales. Revenues related to these activities are generally recognized at a point in time. Revenue generated from the types of contracts listed above totaled \$199,673 in the current fiscal year. In addition, the Association had revenues from CAL Fire grants totaling \$108,315 during 2019. See Note 5.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS: (continued)

The following economic factors affect the nature, amount, timing, and uncertainty of the Association's revenue and cash flows as indicated:

Type of customer and geographical location: These types of services are provided to members and nonmembers located within the United States.

Type of contract: Goods and services contracts tend to be short-term (i.e. less than one year) in duration.

A description of the Association's performance obligations with customers follows:

Performance obligations: Timing of Satisfaction

The Association typically satisfies its performance obligations as goods are delivered and as services are rendered. Therefore, the Association satisfies its performance obligation in a point of time when in relation to these types of contracts.

Performance Obligations: Significant Payment Terms

Payments for goods sold by the Association are typically received immediately upon receipt by members.

Performance Obligations: Nature

In most cases, the goods that are transferred to the members are purchased by the Association for resale. The services provided by the Association are performed by employees of the Association.

Transaction price:

In estimating a contract's transaction price, the Association considers all the information (historical, current, and forecasted) that is reasonable and available to it and identifies a reasonable number of possible consideration amounts. The information that the Association uses to determine transaction price is similar to the information that the Association's management uses in establishing the prices of goods and services. The Association allocates the transaction price to each item sold based upon input methods to include resources consumed, labor hours expended, and other costs incurred.

NOTE 5 – CAL FIRE GRANTS AND INSURANCE RECOVERY ON STORM DAMAGED DOCK

CAL Fire Grants

Through the California Climate Investment Fire Prevention Program, CAL Fire provides funding for local projects and activities that address the risk of wildfire and reduce wildfire potential to forested and forest adjacent communities that have been certified as Firewise Communities. The Association uses this program to obtain grants for certain hazardous fuel reduction and fire prevention activities in the Community. Costs qualifying for grant reimbursement may be incurred by the Association in advance of receiving grant monies from CAL Fire.

To finance projects and activities in advance of receiving grant funds, the Operating Fund will incur the costs and borrow the necessary funds from the Replacement Fund. After individual projects and activities have been completed, the costs qualifying for grant reimbursement are submitted to CAL Fire. The Operating Fund will repay the Replacement Fund after grant monies have been received from CAL Fire.

During 2019, the Operating Fund borrowed \$108,315 from the Replacement Fund to pay for qualifying costs incurred under the program. Also, during 2019, grant monies received by the Operating Fund from CAL Fire amounted to \$108,315, of which all but \$7,940 had been repaid to the Replacement Fund by December 31, 2019. CAL Fire grant revenue of \$108,315 is a separate line in Total Revenues, and Qualifying costs for hazardous fuel reduction and fire prevention of \$108,315 is a separate line in Total Expenses, in the accompany Statement of Revenues and Expenses and Changes in Fund Balance.

Insurance recovery on storm damaged dock

In January 2019, a wind and rainstorm broke loose a private homeowner's dock and crashed it into a dock owned by the Association. The Association's dock then broke free of its anchors and crashed into shore. The Association's dock, gangway, and other components were destroyed or became unusable as a result. The Association recorded a loss of \$33,350 to write-off the then current net book value of the dock and gangway. In late March 2019, the Association received \$149,809 in settlement from its insurance company amounting to full replacement cost for a new dock, gangway, and other necessary components. The gain on insurance recovery, net of the write-off for the dock and gangway destroyed, was \$116,584, and is included as a separate line in Total Revenues in the accompanying Statement of Revenues and Expenses and Changes in Fund Balances.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2019

NOTE 6 - SIGNIFICANT GROUP CONCENTRATIONS

of CREDIT RISK:

The Association maintains its cash deposits in various banks and one securities institution. Deposits in domestic banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. At December 31, 2019, the Association had cash and investments in ten banks and one securities institution totaling \$2,750,283. Such deposits include \$1,380,321 in nine domestic banks that are fully insured by the FDIC, except for amounts at one domestic bank where deposits exceeded the FDIC insurance coverage limits by \$9,404.

In addition, at December 31, 2019, the Association had deposits in a money market mutual fund totaling \$358,340. The money market fund is not FDIC insured; however, it invests only in high quality U.S. Government money market instruments and related repurchase agreements.

Deposits at UBS AG Stamford Branch total \$259,404 at year end and are not FDIC or SIPC insured. These deposits are subject to the general credit risk of UBS AG Stamford Branch. Standard and Poor's most recent credit rating for UBS AG Stamford Branch is A+/A-1. This rating represents upper medium grade investment quality and low credit risk.

Also, at December 31, 2019, the Association had investments in US Treasury Notes totaling \$500,000. Such investments are not FDIC insured, but are backed by the full faith and credit of the U.S. Government.

NOTE 7 – CONTINGENCIES:

The Association is subject to legal proceedings in the normal course of operations. None of the pending actions are expected to have a material adverse effect on the financial position of the Association.

NOTE 8 – SUBSEQUENT EVENTS:

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the results of the Association's operations during the subsequent year. The extent of the financial impact is unknown as of the date of this report.

The financial statements were issued on and subsequent events were evaluated through October 29, 2020.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2019
(unaudited)

The Association's governing documents require funds to be accumulated for the maintenance and future repair and replacement of its common areas. Once every three years the Board of Directors and management are required by statute to perform a formal study that includes an on-site analysis to assess the condition of all common area components and determine current replacement costs and remaining lives of these components. This is based on published data, contractor or engineering estimates, and prior experience. In addition, the consultant updates the estimates for projected inflation and interest rates earned on investments and cash and cash equivalents used to determine the funding status. Once every three years an outside consultant must perform a site visit to complete our reserve study. The most recent site visit by an outside consultant was in 2017, and the next site visit will be in 2020. On November 16, 2019, an outside consultant completed and issued an updated reserve study without site visit, for a 30-year projection period starting January 1, 2020.

The following table presents the significant components of common property and the funding status based on the January 1, 2020 reserve study report.

Component	Estimated Remaining Useful Lives	Estimated	
		Current	Replacement Cost
Campground - Golf	2 - 24 years	\$	198,050
Clubhouse	1 - 13 years		329,150
Community Entrance	0 - 16 years		53,650
Maintenance Shop	0 - 13 years		59,550
Marina	0 - 24 years		798,400
Painting	2 - 4 years		31,700
Pool Area	0 - 11 years		92,250
Roads	1 - 19 years		206,000
Roads - Overlay	3 - 19 years		3,847,350
Roads - MicroSurfacing	0 - 15 years		824,700
Roofing	2 - 23 years		61,000
Security Fencing	0 - 14 years		97,950
Vehicles	0 - 7 years		280,900
Totals		<hr/>	<hr/> \$ 6,880,650
Reserve Fund Balance at December 31, 2019		<hr/>	<hr/> \$ 2,160,105
100% Funded Reserve Balance (Ideal Balance) at January 1, 2020		<hr/>	<hr/> \$ 3,640,659

Replacement costs for the Private Marina docks and slips are exclusively funded by lease fees from members of the Private Marina and are not included in the information above.

Oak Shores Community Association

Schedule of Revenues and Expenses - Budget And Actual

For the Year Ended December, 31, 2019

(Unaudited)

	Actual	Budget	Variance	Unaudited
OPERATING FUND				
<u>REVENUES</u>				
Assessments	\$ 1,236,111	\$ 1,239,927	\$ (3,816)	
Interest Income	776	300	476	
Rubbish Fee Income	209,995	205,000	4,995	
Owner Rental Fees	44,425	40,000	4,425	
Fire Department Rental Fees	7,170	7,800	(630)	
Watercraft Fees	45,090	45,000	90	
Owner Fee Income	25,158	12,500	12,658	
Committee Revenues	27,520	20,000	7,520	
Lease Fees from Private Marina	50,250	50,250	-	
Grant Revenues/Expenses	108,315	147,000	(38,685)	
Gain on Insurance Recovery	116,584	-	116,584	
Other Income	53,442	33,350	20,092	
Total Revenues	<u>1,924,836</u>	<u>1,801,127</u>	<u>123,709</u>	
<u>EXPENSES</u>				
<u>General and Administrative Expenses</u>				
Insurance	72,417	83,000	10,583	
Legal Fees	23,720	30,000	6,280	
Outside Services	35,588	41,250	5,662	
Auditing and Accounting	8,000	10,000	2,000	
Income Taxes	19,273	6,600	(12,673)	
Printing and Reproduction	11,205	15,900	4,695	
Other General and Administrative	67,519	90,360	22,841	
<u>Payroll and Related Costs</u>				
Salaries	573,274	538,300	(34,974)	
Payroll Taxes	53,926	55,000	1,074	
Insurance and Other Costs	94,508	120,250	25,742	
<u>Utilities</u>				
Rubbish Service	213,346	209,500	(3,846)	
Water and Fire Hydrants	189,589	193,500	3,911	
Electricity and Propane	28,053	29,000	947	
Telephone and Other	18,252	19,000	748	
Depreciation	30,415	19,000	(11,415)	
Committee Expenses	14,015	16,167	2,152	
Private Marina Expense	38,541	46,294	7,753	
Transportation Costs	38,237	35,600	(2,637)	
Maintenance and Repairs	44,425	57,500	13,075	
Grant Expenditures	108,315	147,000	38,685	
Capital Spending	14,416	5,000	(9,416)	
Total Expenses	<u>1,697,034</u>	<u>1,768,221</u>	<u>71,187</u>	
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 227,802</u>	<u>\$ 32,906</u>	<u>\$ 194,896</u>	
REPLACEMENT FUND				
<u>REVENUES</u>				
Assessments	\$ 442,520	\$ 442,500	\$ 20	
Interest Income	49,499	36,436	13,063	
Other Income	2,500	14,000	(11,500)	
Total Revenues	<u>494,519</u>	<u>492,936</u>	<u>1,583</u>	
<u>EXPENSES</u>				
Major Repairs and Replacements	1,136,797	929,301	(207,496)	
Total Expenses	<u>1,136,797</u>	<u>929,301</u>	<u>(207,496)</u>	
Excess of Revenues Over Expenses	<u>\$ (642,278)</u>	<u>\$ (436,365)</u>	<u>\$ (205,913)</u>	

See Auditors' Report

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

Oak Shores Community Association
Summarized Schedule of Private Marina Activity
As of and For the Year Ended December 31, 2019
(Uaudited)

	Private Marina	
	Operations	Replacements
<u>Balance Sheets:</u>		
Cash and Cash Equivalents	\$ 3,737	\$ 83,139
Other Assets	837	-
Total Assets	<u>\$ 4,574</u>	<u>\$ 83,139</u>
Accounts Payable	\$ -	\$ -
Other Liabilities	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balances	4,574	83,139
Total Liabilities and Fund Balance	<u>\$ 4,574</u>	<u>\$ 83,139</u>
<u>Revenues and Expenses:</u>		
Total Revenues	\$ 50,254	\$ -
Total Expenses	38,541	-
Excess (Deficiency) of Revenues Over Expenses	<u>11,713</u>	<u>-</u>
Fund Balances, Beginning of Year	6,486	69,514
Transfer	(13,625)	13,625
Fund Balances, End of Year	<u>\$ 4,574</u>	<u>\$ 83,139</u>