



OAK SHORES COMMUNITY ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*December 31, 2022***

PORTER & LASIEWICZ, CPAs
Certified Public Accountants

Board of Directors and Members

Oak Shores Community Association
Bradley, CA

Independent Auditors' Report

Opinion

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, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Oak Shores Community Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Oak Shores Community Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Oak Shores Community Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Oak Shores Community Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 pages 15-16 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 pages 17-18 and the Summarized Schedule of Private Marina Activity on page 19 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

May 4, 2023

Simi Valley, California

Oak Shores Community Association

Balance Sheet

As of December 31, 2022

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,000,865	\$ 1,473,918	\$ 2,474,783
Investments	-	1,140,111	1,140,111
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$12,688	24,178	-	24,178
Lease Fees Receivable from Private Marina Owners	1,479	-	1,479
Accrued Interest Receivable	-	3,500	3,500
Prepaid Insurance	69,571	-	69,571
Prepaid Income Taxes	3,559	-	3,559
Other Prepaid Expenses	26,945	-	26,945
Inventory	5,453	-	5,453
Due to/from	(16,201)	16,201	-
Property and Equipment, Net of Accumulated Depreciation of \$326,913	532,694	-	532,694
Right of Use Assets	10,760	-	10,760
Total Assets	\$ 1,659,303	\$ 2,633,730	\$ 4,293,033
 <u>LIABILITIES</u>			
Accounts Payable	\$ 14,312	\$ -	\$ 14,312
Accrued Payroll and Related Items	43,578	-	43,578
Prepaid Assessments	454,967	-	454,967
Finance Lease Liabilities	10,929	-	10,929
Other Liabilities	55,892	1,500	57,392
Total Liabilities	579,678	1,500	581,178
 <u>FUND BALANCES</u>			
Operating Fund Balance	1,079,625	-	1,079,625
Reserve Fund Balance	-	2,632,230	2,632,230
Total Fund Balance	1,079,625	2,632,230	3,711,855
Total Liabilities and Fund Balances	\$ 1,659,303	\$ 2,633,730	\$ 4,293,033

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, 2022

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<u>REVENUES</u>			
Regular Assessments	\$ 1,383,302	\$ 44,713	\$ 1,428,015
Assessment for Gate Property Purchase	624,991	-	624,991
Interest and Dividend Income	234	32,859	33,093
Rubbish Fee Income	229,314	-	229,314
Owner Rental Fees	36,600	-	36,600
Fire Department Rental Income	8,527	-	8,527
Watercraft Fees	24,670	-	24,670
Owner Fee Income	19,409	-	19,409
Committee Revenues	23,470	-	23,470
Lease Income from Private Marina	68,034	-	68,034
Insurance Recovery	-	16,854	16,854
Other Income	49,518	12,010	61,528
Total Revenues	<u>2,468,069</u>	<u>106,436</u>	<u>2,574,505</u>
<u>EXPENSES</u>			
General and Administrative Expenses			
Insurance	86,747	-	86,747
Legal Fees	27,718	-	27,718
Outside Services	56,995	-	56,995
Bad Debt Expense	2,688	-	2,688
Audit and Accounting	9,000	-	9,000
Income Taxes	6,942	-	6,942
Printing and Reproduction	8,697	-	8,697
Other General and Administrative	51,630	-	51,630
Payroll and Related Costs			
Salaries	691,426	-	691,426
Payroll Taxes	56,687	-	56,687
Employee Benefits and Other Costs	94,838	-	94,838
Utilities			
Rubbish Service	233,144	-	233,144
Water and Fire Hydrants	198,941	-	198,941
Electricity and Propane	33,122	-	33,122
Telephone and Other	18,961	-	18,961
Depreciation and Amortization	38,378	-	38,378
Committee Expenses	18,094	-	18,094
Private Marina Expenses	32,192	-	32,192
Transportation Costs	36,759	-	36,759
Maintenance and Repairs	58,192	-	58,192
Gate Property Purchase and Improvements	604,054	-	604,054
Major Repairs and Replacements	-	382,983	382,983
Total Expenses	<u>2,365,205</u>	<u>382,983</u>	<u>2,748,188</u>
Excess (Deficiency) of Revenues Over Expenses	102,864	(276,547)	(173,683)
Fund Balances, Beginning of Year	907,550	2,977,434	3,884,984
Contributed Capital - Committee	554	-	554
Transfer of assets to be capitalized	68,657	(68,657)	-
Fund Balances, End of Year	<u>\$ 1,079,625</u>	<u>\$ 2,632,230</u>	<u>\$ 3,711,855</u>

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, 2022

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ 102,864	\$ (276,547)	\$ (173,683)
<u>Adjustments to Reconcile (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:</u>			
Increase in Allowance for Doubtful Accounts	2,688	-	2,688
Accretion of Discount on Investments		(6,760)	(6,760)
Depreciation and Amortization	38,378	-	38,378
<u>Changes in Assets and Liabilities:</u>			
Accounts Receivable	(10,062)	-	(10,062)
Accounts Receivable - Private Marina	516	-	516
Accrued Interest Receivable	-	(1,405)	(1,405)
Prepaid Insurance	(15,562)	-	(15,562)
Prepaid Income Taxes	6,976	-	6,976
Other Prepaid Expense	(4,983)	-	(4,983)
Inventory	1,615	-	1,615
Accounts Payable	(27,866)	-	(27,866)
Accrued Payroll and Related Items	10,954	-	10,954
Prepaid Assessments	(113,536)	-	(113,536)
Other Liabilities	22,096	-	22,096
Total Adjustments	(88,786)	(8,165)	(96,951)
Net Cash and Cash Equivalents Provided By Operations	14,078	(284,712)	(270,634)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Property and Equipment	(3,355)	-	(3,355)
Apply Deposit to Purchase of Gate Property	30,000	-	30,000
Purchase of Property and Equipment to be Transferred to Operations	-	(68,657)	(68,657)
Purchase of Investments	-	(935,051)	(935,051)
Maturity of Investments	-	100,000	100,000
Net Cash and Cash Equivalents Provided (Used) By Investing Activities	26,645	(903,708)	(877,063)
<u>Cash Flows from Financing Activities:</u>			
Donations to Committees	554	-	554
Loan Payments for Crack Seal Materials	45,757	(45,757)	-
Repayment of Storm Damage Loan	(100,000)	100,000	-
Principle Reduction on Financing Lease Liabilities	(1,624)		(1,624)
Loan for Purchase of Gate Property	545,772	(545,772)	-
Repayment of Loans for Purchase of Gate Property	(575,772)	575,772	-
Cash and Cash Equivalents Provided (Used) By Financing Activities	(85,313)	84,243	(1,070)
Net Increase In Cash and Cash Equivalents	(44,590)	(1,104,177)	(1,148,767)
Cash and Cash Equivalents, Beginning of Year	1,045,455	2,578,095	3,623,550
Cash and Cash Equivalents, End of Year	\$ 1,000,865	\$ 1,473,918	\$ 2,474,783
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	\$ -	\$ -	\$ -
Cash Paid for Interest	\$ 444	\$ -	\$ 444
Property and Equipment Transferred to Operations	\$ 68,657	\$ (68,657)	\$ -
Non-cash Recognition of New Leases	\$ 12,533	\$ -	\$ 12,533

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, 2022

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 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.

Surplus funds from community events and operation of the vending machines are accumulated, and at the discretion of Recreation Committee may be used to purchase furniture and equipment for the community and to make improvements to community property.

The Corner Store –The Corner Store sells Lake Nacimiento themed shirts/sweats, hats, stickers, and other merchandise, along with ice cream and treats. Profits are used to benefit the Association and may be combined with Recreation Committee funds for this purpose.

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. The Fishing Derby does not accumulate surplus funds with the intent to donate such funds to the Association. To date, surplus funds have been carried over and spent on the Fishing Derby expenses and prizes in the following years.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

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. The Fire Wise Committee did not sponsor any Community events in 2022.

Pickleball Committee – The Pickleball Committee was newly formed in 2022. The Committee is raising funds with the intention to plan and construct one or more pickleball courts mostly likely on the Gate Property. Funds raised through December 31, 2022, amount to \$13,300 and no costs have been incurred. Funds not spent on planning and construction will be returned to donors on a pro-rata basis. There is no date certain for commencement of planning and completion of construction. As such, there is no date certain whereby unspent funds, if any, will be returned to donors. Since the unspent amounts will be refunded, the \$13,300 of funds raised through December 31, 2022, is included in the accompanying Operating Balance Sheet in Other Liabilities.

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.

Docks and slips of the Private Marina are excluded from the Association's property and equipment in the accompanying balance sheet because all spending of the Private Marina is funded through slip fees collected from members of the Private Marina, and because access to the Private Marina docks is restricted to the lessees.

Slip lease revenues are used to pay for costs related to dock operations, including ongoing maintenance, repair, and eventual replacement of the private docks and slips, as well as administrative services and insurance costs paid to the Association. The Private Marina docks and slips have been purchased and built using slip 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, 2022, are presented in the Unaudited Summarized Schedule of Private Marina Activity on page 19 of this report. The Private Marina docks and slips are leased to the members of the Private Marina until sold by the lessee, terminated by the lessee with 30 days' notice, or until terminated by the Association for cause.

Revenue Recognition

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association has evaluated the impact of FASB ASC 606, Revenue from Contracts with Customers, on its financial statements and has determined that the standard does not apply to transactions with its members related to assessments. Assessment revenue is recognized when earned.

User fees and other revenues received from ancillary operations are recognized as the related performance obligations are satisfied. The performance obligations related to the ancillary activities are typically satisfied at a point in time immediately after payment has been received. All revenues are recognized at amounts that are expected to be collected.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES **(continued):**

Cash and Cash Equivalents

Cash and cash equivalents include cash-on-hand, funds on deposit with financial institutions, investments with original maturities of three months or less, and certain liquid money market funds. Operating Fund cash and cash equivalents on December 31, 2022, includes \$188,300 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 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.

Investments

As of December 31, 2022, the Association held four certificates of deposit and two US Treasury Notes with a book value aggregating \$1,140,111. The certificates of deposit and US Treasury Notes are classified as held-to-maturity investments and are recorded at amortized cost. See Note 5 – Significant Concentrations of Credit Risk.

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.

Accounts 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 most of its revenue from dues assessments that are levied against each lot within the development.

Accounts receivable at December 31, 2022, includes 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 doubtful accounts is an estimate based on review of delinquent accounts receivable, historical collection activities, and existing economic conditions.

Prepaid assessments represent amounts for the 2023 annual assessment paid in advance by members of the Association.

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.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

Property and Equipment (continued)

Property and equipment capitalized on the balance sheet as of December 31, 2022, consists of:

Furniture and Fixtures	\$	13,671
Machinery and Equipment		91,296
Dock and slips		562,638
Vehicles		<u>192,056</u>
Total Cost		859,607
Less: Accumulated Depreciation		<u>(326,913)</u>
Net Property and Equipment	\$	<u>532,694</u>

During the year ended December 31, 2022, the Association evaluated the useful lives of its dock and slips. Docks and slips are made from components such as decking, floats and framing that are intended to be replaceable in parts rather than the entire structure. With periodic maintenance and refurbishment every ten years the docks and slips are expected to last 30 years before replacement. This has extended the current lives of the docks and slips by 5 years from 25 years to 30 years. This change in useful lives has been treated as a change in estimate and has been accounted for prospectively in the accompanying financial statements beginning on January 1, 2022.

Common area property not capitalized in 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.

During the year ending December 31, 2022, equipment spending by the Operating Fund was \$3,355 for a radar speed sign and trailer. Also during the year ending December 31, 2022, the Replacement Fund transferred assets to the Operating Fund totaling \$68,657 related to the purchase of pool furniture, and parts and materials for refurbishment of the loading docks, and a 2022 Chevrolet Blazer with custom lights and sirens.

Lease Accounting

The Association applies the requirements of Financial Accounting Standards Board issued standard ASU 2016-02 *Leases (Topic 842)*. The standard requires the Association to recognize lease liabilities and right-of-use assets for all leases on the balance sheet and to disclose key information about the Association's leasing arrangements. The new standard was adopted as of the beginning of 2022 and did not have a material impact on the Balance Sheet, Statements of Revenues, Expenses and Changes in Fund Balance, or Cash Flows. The Association elected the package of practical expedients upon adoption, which permits the Association not to reassess under the new standard the Association's prior conclusions about lease identification, lease classification, and initial direct costs. Sales taxes are not the transfer of separate goods or services and are combined with lease and non-lease component payments.

The Association determines if an arrangement is a lease or contains a lease at the inception of the contract. Lease liabilities, which represent the Association's obligation to make lease payments arising from the lease, and corresponding right-of-use assets, which represent the Association's right to use an underlying asset over the lease term, are recognized at the commencement date of the lease, which is typically the date the Association obtains possession of the leased property, based on the present value of fixed future payments over the lease term. The Association utilizes the lease term for which it is reasonably certain to use the underlying asset, including consideration of options to extend or terminate the lease.

The Association calculates the present value of future payments using the discount rate implicit in the lease, if available, or the Association's incremental borrowing rate. For finance leases, amortization of assets is recognized over the shorter of the lease term or useful life of the underlying assets. See Note 8 - Finance Leases.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

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 used 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 these estimates.

Interest Income

The Association records interest income in the respective Fund holding the investment. All income taxes on interest income and the related income tax liabilities are recorded in the Operating Fund.

Due to/Due from

In March 2022, the Operating Fund repaid \$30,000 to the Replacement Fund for a loan made in April 2021 used for an escrow deposit on the Gate Property. The transaction to purchase the Gate Property was completed in March 2022, and the Operating Fund borrowed \$545,772 from the Replacement Fund to finance the purchase. The Operating Fund fully repaid this loan in two installments during the year ended December 31, 2022. See Note 9 – Gate Property.

In March 2022, the Operating Fund repaid \$100,000 to the Replacement Fund as final payment on a \$300,000 loan made in May 2021 to fund storm damage repairs. As of December 31, 2022, the Operating fund is obligated to pay the Replacement Fund \$16,201 to settle account balances related to the purchase of crack seal materials for the roads.

New Accounting Pronouncements

Credit Losses

On June 16, 2016, the FASB completed its Financial Instruments – Credit Losses project issuing Accounting Standards Update No. 2016-13, *Financial Instruments–Credit Losses (Topic 326)*. This new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value through net income. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The effective date for the Update is for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for all nonpublic business entities. The Association is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of this pronouncement.

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, 2022

NOTE 2 - REPLACEMENT FUND, (continued):

Actual expenditures and inflation 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, including the ability to maintain the Reserve Funding percentage at a level the Board deems acceptable. If additional funds are needed, the Association has the ability 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.

The assessments designated for major repairs and replacements during the year ended December 31, 2022 totaled \$44,713.

Replacement Fund spending during the year ending December 31, 2022, were as follows:

<u>Component Category</u>	<u>Cost</u>
Road micro-surfacing	\$ 348,918
Roofing for Fire Dept Bldg.	<u>34,065</u>
Total Reserve Expenses	<u>\$ 382,983</u>

Insurance recovery

In February and March 2022, the Association received payments totaling \$16,854 on an insurance claim to repair the front gate after it was vandalized in August 2021. The recovery is recorded as Replacement Fund income in 2022.

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 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 provision for income taxes for the year ended December 31, 2022, included \$3,559 in prepaid tax and an expense of \$6,942.

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended December 31, 2022, 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 2020, 2021, and 2022. The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America.

As of December 31, 2022, 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.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Association earns revenues from ancillary services including home rental and transfer fees paid by owners, building rental income paid by Cal Fire, watercraft and campground fees paid by guests and visitors, lease fees paid by the Private Marina slip holders, and Committee revenues from ice, soda, and merchandise sales. Revenues from ancillary services are generally recognized at the point in time when goods are delivered, or services are rendered. Revenue generated from ancillary services totaled \$230,200 in 2022. The economic factors affecting the nature, amount, timing, and uncertainty of the Association's ancillary revenue and cash flows is these types of services are provided to members and nonmembers located within the United States. Goods and services contracts tend to be short-term (i.e. less than one year) in duration.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2022

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

The Association typically satisfies its contractual performance obligations at the point in time when goods are delivered, or services are rendered. Payments for goods sold by the Association are typically received immediately upon receipt of the goods by members. 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. 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 information 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 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Association to credit risk consist principally of cash and cash equivalents and investments. The Association maintains its cash in demand checking and savings accounts at various banks. At December 31, 2022, deposits at three banks exceed the federally insured limits (FDIC insurance) by an aggregate total of \$690,300.

NOTE 6 – CASH AND EQUIVALENTS:

Cash equivalents are held by the Replacement Fund and total \$1,373,600 as of December 31, 2022. Cash equivalents are held in a money market fund that principally invests in securities issued by the US Treasury

and in related repurchase agreements. Cash equivalents are carried at cost, which approximates fair value. Investments are held by the Replacement Fund in certificates of deposit at FDIC insured banks and in US Treasury Notes. No certificates of deposit exceed the federally insured limits.

NOTE 7 – INVESTMENTS:

As of December 31, 2022, investments are comprised of the following:

	Amortized Cost	Fair Value
Certificates of Deposit	\$ 549,204	\$ 523,308
US Treasury Notes	590,907	582,937
Totals	<u>\$ 1,140,111</u>	<u>\$ 1,106,245</u>

The Association classifies its investments as held-to-maturity because it has the intent and ability to hold the investments until maturity. Accordingly, investments are recorded at amortized cost and temporary gains and losses from changes in fair value are not recorded. The unrecorded loss for the difference between amortized cost and the fair value of investments is \$33,866 as of December 31, 2022.

The fair value of investments is determined using the information provided by the Association's investment advisor. The purchases and maturities of investments as of December 31, 2022, are disclosed in the accompanying Statement of Cash Flows.

As of December 31, 2022, the maturities of investments by fiscal year using amortized cost are:

Fiscal Year	Certificates of Deposit	US Treasury Notes	Total
2023	\$ 200,000	\$ 396,764	\$ 596,764
2024	-	194,143	194,143
2025	87,000	-	87,000
2026	262,204	-	262,204
	<u>\$ 549,204</u>	<u>\$ 590,907</u>	<u>\$ 1,140,111</u>

Oak Shores Community Association

Notes to Financial Statements

For the year ended December 31, 2022

NOTE 8 – FINANCE LEASES

In April 2022, the Association entered into separate 63-month agreements to lease two office copy/printer machines. The leases automatically extend for 12 months at the end of the original lease term and then extend on a month-by-month basis thereafter until terminated by the Association. The agreements include the leased equipment and certain non-lease components for extended warranty and ink and toner. The present value of future lease payments was determined using the discount implicit in the leases of 5.69% over the initial 63-month term of the leases as provided by the lessor. The value of non-lease components for the extended warranty and ink and toner was determined using the residual value method.

Lease costs for the year ending December 31, 2022, were as follows:

	Amount
Amortization of Finance Lease Right-of-Use Assets	\$ 1,793
Interest on Finance Lease Liabilities	444
Total lease costs	\$ 2,237
Cash paid in 2022 for amounts included in the measurement of lease liabilities	\$ 2,069

Lease cash flows over the next five years and thereafter are as follows:

Fiscal Year	Amount
2023	\$ 2,758
2024	2,758
2025	2,758
2026	2,758
2027	1,381
Thereafter	none
Undiscounted lease payments	12,413
Less amounts representing interest	(1,484)
Lease liability recorded on the balance sheet	\$ 10,929

Amortization of right-of-use assets is recorded over the 63-month initial term of the leases and is included in Depreciation and Amortization Expense, and interest on lease liabilities is included Other General and Administrative costs, in the accompanying Statement of Revenues and Expenses and Changes in Fund Balances. As of December 31, 2022, the remaining term of both leases is 54 months.

NOTE 9 – GATE PROPERTY:

Purchase of Gate Property

In April 2021, the Association entered into an agreement to purchase the 33-acre parcel of land that includes the Main Entrance Gate off Lynch Canyon Road (the “Gate Property”) for \$595,000. The Association deposited \$30,000 with an escrow company at the time it entered into the purchase agreement. On March 2, 2022, escrow closed, and the purchase was completed. The Association received \$21,000 of credits in escrow against the purchase price for certain necessary repairs. The final purchase price paid was \$577,250, including title and escrow costs.

During the year ended December 31, 2022, the Association incurred \$26,800 in costs on the Gate Property for landscaping, repair and refurbishment on the buildings and water system.

Easements Granted

The Gate Property was purchased from a family trust (the Seller’s Trust) that owns four other parcels along the Main Road entrance into Oak Shores. At the time of closing, the Association entered a separate easement agreement (the Agreement) providing for maintenance free access across the Gate Property to the four other parcels owned by the Seller’s Trust. These access easements run with title to the properties and are limited to the intensity of existing use. In addition, the Agreement also formalized a long-standing arrangement that provided personal easements to the West Ramp for members of the Seller’s family and their heirs. These personal easements do not run with the title to the four other parcels owned by the Seller’s Trust.

Oak Shores Community Association

Notes to Financial Statements

For the year ended December 31, 2022

NOTE 10 – SUBSEQUENT EVENTS

In January 2023, a series of winter storms brought heavy rain to the Lake Nacimiento area. A significant amount of damage was incurred as certain hillsides sloughed mud on to roadways, debris collected in the marina, and water overtopped the curb on Turkey Cove Road eroding the hillside and compromising the underlying roadbed. Emergency costs incurred to remove mud and debris in January 2023 was \$30,900. In addition, in February 2023 the Board approved a contract amounting to \$48,100 to remove and replace a section of Turkey Cove Road to

allow repair of the roadbed and hillside stabilization. The total of these storm damage repairs is \$79,000 and will be charged against the Road/Slope repair component in the Replacement Fund in 2023.

In January 2023 and February 2023, there were the respective maturities of a US Treasury Note with a value of \$397,000 and a certificate of deposit with a value of \$200,000.

These financial statements were issued on and subsequent events were evaluated through May 4, 2023.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2022
(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 2020, and the next site visit will be in 2023. On November 11, 2022, and as revised on March 9, 2023, an outside consultant completed and issued a Reserve Study without a site visit. The Reserve Study covers the 30-year projection period starting January 1, 2023.

The following table presents the significant components of common property and the funding status based on the Reserve Study report for January 1, 2022:

<u>Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>
Campground and Mini-Golf Course	0 – 21 years	\$ 200,500
Clubhouse	0 – 22 years	357,700
Community Entrance	0 – 14 years	149,700
Maintenance Shop	0 – 10 years	87,400
Marina	0 – 26 years	1,140,500
Painting	0 – 4 years	71,900
Pool Area	0 – 5 years	101,300
Roads - Overlay	1 – 17 years	4,471,700
Roads – Micro-surfacing	3 – 7 years	1,268,000
Roads - Other	1 -16 years	332,600
Roofing	1 – 23 years	141,100
Security and Fencing	0 – 11 years	127,200
Vehicles	0 – 9 years	303,900
		<u>\$ 8,753,500</u>
Replacement Fund Balance as of January 1, 2023		<u>\$ 2,632,230</u>
Ideal Balance as of January 1, 2023		<u>\$ 5,011,900</u>

Private Marina docks and slips with an estimated current replacement cost of \$1,060,000 and estimated remaining useful lives of 12 to 25 years, are exclusively funded by slip fees from members of the Private Marina and are not included in the information above.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2022
(unaudited)

The Reserve Study used a pooled funding method that included an inflation factor of 8.3% for 2022, and 2.8% thereafter through 2052. The assessments designated for major repairs and replacements during the upcoming fiscal 2023 are \$738,620, including \$125,000 as an additional assessment planned for each year through 2026 to make-up for \$500,000 of funding that was budgeted and directed away from the Replacement Fund and into the Operating Fund in 2022 to finance the purchase of the Gate Property.

During the year ended December 31, 2022, the Replacement Fund purchased and transferred the following assets to the Operating Fund:

<u>Component Category</u>	<u>Cost</u>
Chevrolet Blazer with lights and siren	\$ 33,880
Pool furniture	9,167
Materials for loading dock refurbishment	<u>25,610</u>
Total Transfers to Operations	<u>\$ 68,657</u>

Oak Shores Community Association
Schedule of Revenues and Expenses - Budget And Actual
For the Year Ended December 31, 2022
(Unaudited)

	Actual	Unaudited	
		Budget	Variance
OPERATING FUND			
<u>REVENUES</u>			
Regular Assessments	\$ 1,383,302	\$ 1,382,908	394
Assessment for Gate Property Purchase	624,991	624,991	-
Interest Income	234	50	184
Rubbish Fee Income	229,314	226,000	3,314
Owner Rental Fees	36,600	40,500	(3,900)
Fire Department Rental Fees	8,527	8,500	27
Watercraft Fees	24,670	36,000	(11,330)
Owner Fee Income	19,409	14,000	5,409
Committee Revenues	23,470	36,000	(12,530)
Lease Income from Private Marina	68,034	67,150	884
Other Income	49,518	42,975	6,543
Total Revenues	2,468,069	2,479,074	(11,005)
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	86,747	131,120	44,373
Legal Fees	27,718	30,000	2,282
Outside Services	56,995	52,650	(4,345)
Allowance for Doubtful Accounts	2,688	2,500	(188)
Auditing and Accounting	9,000	10,000	1,000
Income Taxes	6,942	8,500	1,558
Printing and Reproduction	8,697	11,550	2,853
Other General and Administrative	51,630	69,285	17,655
<u>Payroll and Related Costs</u>			
Salaries	691,426	675,912	(15,514)
Payroll Taxes	56,687	58,642	1,955
Employee Health Benefits and Other Costs	94,838	113,281	18,443
<u>Utilities</u>			
Rubbish Service	233,144	230,500	(2,644)
Water and Fire Hydrants	198,941	194,000	(4,941)
Electricity and Propane	33,122	37,500	4,378
Telephone and Other	18,961	20,000	1,039
Depreciation and Amortization	38,378	48,600	10,222
Committee Expenses	18,094	22,000	3,906
Private Marina Expense	32,192	51,040	18,848
Transportation Costs	36,759	40,500	3,741
Maintenance and Repairs	58,192	64,200	6,008
Gate Property Purchase and Improvements	604,054	42,500	(561,554)
Capital Spending for Other Purchases	-	5,000	5,000
Total Expenses	2,365,205	1,919,280	(445,925)
Excess (Deficiency) of Revenues Over Expenses	\$ 102,864	\$ 559,794	\$ (456,930)
REPLACEMENT FUND			
<u>REVENUES</u>			
Assessments	\$ 44,713	\$ 44,713	\$ -
Interest Income	32,859	10,000	22,859
Insurance recovery	16,854	-	16,854
Other Income	12,010	7,600	4,410
Total Revenues	106,436	62,313	44,123
<u>EXPENSES</u>			
Major Repairs and Replacements, excluding capitalized Prop. and Equip.	382,983	883,700	500,717
Total Expenses	382,983	883,700	500,717
Excess of Revenues Over Expenses	\$ (276,547)	\$ (821,387)	\$ (456,549)
Property and Equipment Purchased and Transferred to Operations	\$ (68,657)	\$ (128,800)	\$ 60,143

Oak Shores Community Association

Supplemental Information on Schedule of Revenues and Expenses - Budget And Actual

For the Year Ended December 31, 2022

(Unaudited)

GATE PROPERTY

It is estimated the total cost for the purchase, repair, and refurbishment of the Gate Property and buildings will approximate \$640,000.

To finance the Gate Property purchase, the Association's Operating Budget for 2022 included \$500,000 in assessments directed to the Operating Fund that otherwise would have been directed to the Replacement Fund. In addition, the Board approved an additional Operating Assessment of \$125,000 for 2022. The combined \$625,000 increase in Operating assessments for 2022 was used to purchase the Gate Property and fund repair and refurbishment costs. Approximately \$21,000 of the original \$625,000 remains unspent as of December 31, 2022, and has been carried over to 2023 for repairs and refurbishments. It is anticipated that costs above \$625,000 and up to \$640,000 will be paid out of other carryover funds. If total spending exceeds \$640,000, funding may depend on the timing of the spending and the availability of other carryover funds, or an increase in operating assessments to cover costs.

For the years 2023 to 2026, the Board intends to maintain the additional assessment described above of \$125,000 per year to replenish the Replacement Fund for the \$500,000 that would have otherwise been contributed in 2022.

Oak Shores Community Association

Summarized Schedule of Private Marina Activity - Unaudited

As of and For the Year Ended December 31, 2022

	Private Marina	
	Operations	Replacements
<u>Balance Sheets</u>		
Cash and Cash Equivalents	\$ 2,082	\$ 118,748
Accounts Receivable	1,480	
Prepaid Insurance	12,993	-
Total Assets	\$ 16,555	\$ 118,748
Accounts Payable	\$ -	\$ -
Other Liabilities	-	-
Total Liabilities	-	-
Fund Balances	16,555	118,748
Total Liabilities and Fund Balance	\$ 16,555	\$ 118,748
<u>Revenues and Expenses:</u>		
Total Revenues	\$ 68,034	\$ -
Total Expenses	32,192	-
Excess (Deficiency) of Revenues Over Expenses	35,842	-
Fund Balances, Beginning of Year	12,716	86,745
Revenue over Expenses	35,841	-
Transfers	(32,003)	32,003
Fund Balances, End of Year	\$ 16,555	\$ 118,748

Private Marina docks and slips have a useful life of 30 years and as of December 31, 2022, have a net book value of \$369,500 (original cost of \$720,900 less accumulated depreciation of \$351,400).