



OAK SHORES COMMUNITY ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*December 31, 2023***

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, 2023, 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, 2023, 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 page 17 and the Summarized Schedule of Private Marina Activity on page 18 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

June 25, 2024

Simi Valley, California

Oak Shores Community Association

Balance Sheet

As of December 31, 2023

	Operating Fund	Replacement Fund	Total Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 429,036	\$ 1,659,848	\$ 2,088,884
Investments	-	1,341,769	1,341,769
Accounts Receivable, Net of Allowance for Credit Losses of \$26,315	40,180	-	40,180
Lease Fees Receivable from Private Marina Owners	1,480	-	1,480
Accrued Interest Receivable	-	9,738	9,738
Prepaid Insurance	78,654	-	78,654
Other Prepaid Expenses	18,598	-	18,598
Inventory	2,924	-	2,924
Due to/from	(37,526)	37,526	-
Property and Equipment, Net of Accumulated Depreciation of \$338,407	585,195	-	585,195
Finance Lease Right of Use Assets, Net of Accumulated Amortization of \$4,184	8,369	-	8,369
Total Assets	<u>\$ 1,126,910</u>	<u>\$ 3,048,881</u>	<u>\$ 4,175,791</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 29,406	\$ 64,565	\$ 93,971
Accrued Payroll and Related Items	48,588	-	48,588
Income Taxes Payable	18,370	-	18,370
Prepaid Assessments	101,247	-	101,247
Finance Lease Liabilities	8,736	-	8,736
Other Liabilities	46,383	-	46,383
Total Liabilities	252,730	64,565	317,295
<u>FUND BALANCES</u>			
Operating Fund Balance	874,180	-	874,180
Reserve Fund Balance	-	2,984,316	2,984,316
Total Fund Balance	874,180	2,984,316	3,858,496
Total Liabilities and Fund Balances	<u>\$ 1,126,910</u>	<u>\$ 3,048,881</u>	<u>\$ 4,175,791</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, 2023

	Operating Fund	Replacement Fund	Total Funds
<u>REVENUES</u>			
Regular Assessments	\$ 1,467,172	\$ 738,620	\$ 2,205,792
Interest and Dividend Income	898	100,860	101,758
Rubbish Fee Income	251,582	-	251,582
Owner Rental Fees	45,850	-	45,850
Fire Department Rental Income	8,954	-	8,954
Watercraft Fees	58,870	-	58,870
Owner Fee Income	24,444	-	24,444
Committee Revenues	24,620	-	24,620
Lease Income from Private Marina	77,262	-	77,262
Other Income	50,392	9,275	59,667
Total Revenues	<u>2,010,044</u>	<u>848,755</u>	<u>2,858,799</u>
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	117,252	-	117,252
Legal Fees	35,096	-	35,096
Outside Services	95,388	-	95,388
Collection Losses	13,626	-	13,626
Audit and Accounting	9,500	-	9,500
Income Taxes	26,829	-	26,829
Printing and Reproduction	7,020	-	7,020
Other General and Administrative	55,537	-	55,537
<u>Payroll and Related Costs</u>			
Salaries	903,861	-	903,861
Payroll Taxes	73,110	-	73,110
Employee Benefits and Other Costs	117,569	-	117,569
<u>Utilities</u>			
Rubbish Service	263,515	-	263,515
Water and Fire Hydrants	208,572	-	208,572
Electricity and Propane	43,710	-	43,710
Telephone and Other	35,187	-	35,187
Depreciation and Amortization	47,396	-	47,396
Committee Expenses	19,392	-	19,392
Private Marina Expenses	93,721	-	93,721
Transportation Costs	42,237	-	42,237
Maintenance and Repairs	64,837	-	64,837
Gate Property Purchase and Improvements	12,557	-	12,557
Capital Spending	98,739	-	98,739
Volunteer Medical and Fire Brigade	7,330	-	7,330
Major Repairs and Replacements	-	402,016	402,016
Total Expenses	<u>2,391,981</u>	<u>402,016</u>	<u>2,793,997</u>
Excess (Deficiency) of Revenues Over Expenses	(381,937)	446,739	64,802
Fund Balances, Beginning of Year	1,079,625	2,632,229	3,711,854
Transfer of assets and extended warranty	83,702	(83,702)	-
Reimbursement for assets purchased by Operations	10,950	(10,950)	-
Donations	81,840	-	81,840
Fund Balances, End of Year	<u>\$ 874,180</u>	<u>\$ 2,984,316</u>	<u>\$ 3,858,496</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, 2023

	Operating Fund	Replacement Fund	Total Funds
<u>Cash Flows From Operating Activities:</u>			
Excess (Deficiency) of Revenues Over Expenses	\$ (381,937)	\$ 446,739	\$ 64,802
<u>Adjustments to Reconcile (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:</u>			
Collection Losses	13,626	-	13,626
Accretion of Discount on Investments	-	(5,110)	(5,110)
Depreciation Expense	45,005	-	45,005
Amortization Expense	2,391	-	2,391
<u>Changes in Operating Assets and Liabilities:</u>			
Accounts Receivable	(29,628)	-	(29,628)
Accounts Receivable - Private Marina	(1)	-	(1)
Accrued Interest Receivable	-	(6,238)	(6,238)
Prepaid Insurance	(9,083)	-	(9,083)
Prepaid Income Taxes	3,558	-	3,558
Other Prepaid Expense	8,347	-	8,347
Inventory	2,529	-	2,529
Accounts Payable	15,094	64,565	79,659
Accrued Payroll and Related Items	5,010	-	5,010
Income Taxes Payable	18,370	-	18,370
Prepaid Assessments	(353,720)	-	(353,720)
Other Liabilities	(9,510)	(1,500)	(11,010)
Total Adjustments	(288,012)	51,717	(236,295)
Net Cash and Cash Equivalents Provided By Operations	(669,949)	498,456	(171,493)
<u>Cash Flows from Investing Activities:</u>			
Purchase of Property and Equipment	(13,804)	-	(13,804)
Reimbursement for purchase of Property and Equipment by Operations	10,950	(10,950)	-
Purchase of Property and Equipment to be Transferred to Operations	-	(83,703)	(83,703)
Purchase of Investments	-	(809,526)	(809,526)
Maturity of Investments	-	597,000	597,000
Receipt of Purchased Interest on Investment	-	15,978	15,978
Net Cash and Cash Equivalents Provided (Used) By Investing Activities	(2,854)	(291,201)	(294,055)
<u>Cash Flows from Financing Activities:</u>			
Donations to Committees	81,840	-	81,840
Repayment of Loan for Crack Seal Materials	(16,201)	16,201	-
Working Capital Loan	30,000	(30,000)	-
Changes in Due to/from for Impact fees and other	7,526	(7,526)	-
Principle Reduction on Financing Lease Liabilities	(2,193)	-	(2,193)
Cash and Cash Equivalents Provided (Used) By Financing Activities	100,972	(21,325)	79,647
Net Increase In Cash and Cash Equivalents	(571,831)	185,930	(385,901)
Cash and Cash Equivalents, Beginning of Year	1,000,867	1,473,918	2,474,785
Cash and Cash Equivalents, End of Year	\$ 429,036	\$ 1,659,848	\$ 2,088,884
<u>Supplemental Information:</u>			
Cash Paid for Income Taxes	\$ 4,900	\$ -	\$ 4,900
Cash Paid for Interest	\$ 565	\$ -	\$ 565
Property and Equipment Transferred to Operations	\$ 83,703	\$ (83,703)	\$ -

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, 2023

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 controlled Committees and Private Marina. The Operating Fund includes equity of the controlled Committees and 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 including erosion control measures.

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 and other 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 the operation of the vending machines are accumulated, and at the discretion of the Recreation Committee, may be used to purchase furniture and equipment for the community, make improvements to community property, and other purposes deemed appropriate.

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 purchase furniture and equipment or make improvements to community property. To date, surplus funds have been carried over and spent on Fishing Derby expenses and prizes in subsequent years.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2023

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. This committee is not the same as the Oak Shores Volunteer Medical and Fire Brigade. The Fire Wise Committee did not participate in sponsoring any Community events in 2023.

Pickleball Committee – The Pickleball Committee was newly formed in Fiscal 2022 and in Fiscal 2023 the Pickleball Committee planned and constructed two pickleball courts on the Front Gate Property. The total cost incurred was \$83,670 and is classified in Capital Spending in the accompanying Operating Fund Statement of Revenues and Expenses. Through December 31, 2023, the Pickleball Committee has collected donations of \$6,311 more than amounts expended on planning, construction, and related costs. Because funds collected are earmarked to be spent on the pickleball courts and ongoing maintenance and improvements, unspent funds are classified as Other Liabilities in the accompanying Operating Balance Sheet.

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 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 were purchased and constructed using slip lease revenues from the members of the Private Marina.

The Private Marina has its own Replacement 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, 2023, are presented in the Unaudited Summarized Schedule of Private Marina Activity on page 18 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, 2023

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, 2023, includes approximately \$155,800 of cash held by the controlled Committees and 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. See Note 5 – Significant Concentrations of Credit Risk.

Investments

As of December 31, 2023, the Association held three certificates of deposit and two US Treasury Notes with a book value aggregating approximately \$1,341,800. 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 as of December 31, 2023, include

amounts due from members whose property may be subject to lien and foreclosure.

The Association's collection procedures include assessing late charges, attorney and collection fees, and lien fees on payments not received within the allowable periods. The Association also can suspend certain membership rights and pursue collection through foreclosure action.

An allowance for credit losses is created when an account's collectability becomes uncertain. The allowance is estimated based on a review of delinquent accounts receivable and an evaluation of historical member payment and collection activities, other known information specific to the member account, and existing and anticipated future economic conditions. Accounts are written off when the Association determines that an account is uncollectible, such as after bankruptcy or foreclosure proceedings have been completed.

The changes in the valuation allowance during fiscal 2023 are as follows:

Beginning Balance	\$ 12,689
Provision for credit losses	13,626
Ending Balance	<u>\$ 26,315</u>

Prepaid assessments represent amounts for the 2024 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.

See Auditors' Report

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2023

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

(continued):

Property and Equipment (continued)

Property and equipment capitalized on the balance sheet as of December 31, 2023, consists of:

Furniture and Fixtures	\$	13,617
Machinery and Equipment		109,487
Dock and slips		536,112
Vehicles		251,873
Watercraft		<u>12,513</u>
Total Cost		923,602
Less: Accumulated Depreciation		<u>(338,407)</u>
Net Property and Equipment	\$	<u>585,195</u>

Common area property and improvements not capitalized in the financial statements include roads and parking lots, green belt areas, the clubhouse and swimming pool, the main marina and west ramp, and the property and buildings at the maintenance yard and front gate. 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, 2023, the Operating Fund spent \$3,865 for video conferencing equipment for the Clubhouse. Also, during the year ending December 31, 2023, the Replacement Fund purchased and transferred assets to the Operating Fund totaling \$82,689 related to a new tractor and extended warranty, a boat motor, computers, and end cages for the loading docks. The Replacement Fund also reimbursed the Operating Fund \$10,950 in cash for a computer, a new soda machine, and string trimmers.

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 at the beginning of 2022 and 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 based on the present value of fixed future payments over the lease term. The lease commencement date is typically the date the Association obtains possession of the leased property. 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, 2023

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 credit losses 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 June 2023, the Operating Fund repaid a total of \$16,201 to the Replacement Fund for road crack seal materials. As of December 31, 2023, net outstanding amounts due by the Operating Fund to the Replacement Fund are as follows:

<u>Description</u>	<u>Amount</u>
Working capital loan	\$ 30,000
Impact fees to be remitted	9,274
Survey costs to be reimbursed	<u>(1,748)</u>
Net Balance Due by Operating Fund to Replacement Fund	<u>\$ 37,526</u>

New Accounting Pronouncements

Credit Losses

Effective January 1, 2023, the Association adopted Accounting Standards Update No. 2016-13 and the related update 2022-02, *Financial Instruments-Credit Losses (Topic 326)*. This 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 adoption did not have a material impact on the Association's financial statements.

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 unless extended by the Board of Directors.

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 can increase regular assessments, levy special assessments, borrow the necessary funds, or delay major repairs and replacements until the funds are available.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2023

NOTE 2 - REPLACEMENT FUND (continued):

Replacement Fund spending during the year ended December 31, 2023, was as follows:

<u>Description</u>	<u>Amount</u>
Road maintenance, repairs, and erosion control	\$ 304,513
Clubhouse area – Curtains, generator, pergola roof	38,313
Marina – Log boom lights	4,149
Pool and Equipment – Pool heater replacement	29,240
Entry Gate - Generator	16,583
Maintenance – Camera system	<u>9,218</u>
Total road and slope repairs and maintenance	<u>\$ 402,016</u>

Winter storms in January 2023 caused significant damage and necessitated unplanned spending for clean-up, debris removal, and erosion control and remediation. See Note 9 – Road Maintenance, Repairs and Erosion Control.

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 the Association's net taxable income is 8.84%.

The Association's provision for income taxes for the year ended December 31, 2023, included \$18,370 in income tax payable and an expense of \$26,829.

The Association's policy is to record tax interest expense or penalties in operating expenses. For the year ended December 31, 2023, 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 2021, 2022, and 2023. The federal and state tax returns for Fiscal 2023 are on extension as of the date of release of these financial statements. The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America.

As of December 31, 2023, 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 recognized at the point in time when goods are delivered, or services are rendered. Revenue generated from ancillary services totaled \$290,400 in Fiscal 2023. The economic factors affecting the nature, amount, timing, and uncertainty of the Association's ancillary revenue and cash flows are these types of services are provided to members and nonmembers located within the United States. Goods and services contracts are short-term (i.e. less than one year) in duration.

Oak Shores Community Association

Notes to Financial Statements

For the Year Ended December 31, 2023

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 prices is similar to the 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 on 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 deposits in demand checking and savings accounts at various banks. As of December 31, 2023, deposits at two banks exceeded the federally insured limits (FDIC insurance) by an aggregate total of \$150,700.

NOTE 6 – CASH AND EQUIVALENTS:

Cash equivalents are held by the Replacement Fund and total approximately \$1,431,200 as of December 31, 2023. 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, 2023, investments are comprised of the following:

	Amortized Cost	Fair Value
Certificates of Deposit	\$ 351,674	\$ 333,001
US Treasury Notes	990,095	990,214
Totals	<u>\$ 1,341,769</u>	<u>\$ 1,323,215</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 \$18,554 as of December 31, 2023.

The fair value of investments is determined using the information provided by the Association's investment advisor. The purchases and maturities of investments for the year ending December 31, 2023, are disclosed in the accompanying Statement of Cash Flows.

Expected credit losses are not estimated or recorded on investments because all amounts are invested in certificates of deposit at banks that are fully insured by the Federal Deposit Insurance Corporation or are invested in US Treasury Notes, all of which are backed by the full faith and pledge of the US government.

As of December 31, 2023, the maturities of investments by fiscal year using amortized cost are:

Fiscal Year	Certificates of Deposit	US Treasury Notes	Total
2024	\$ -	\$ 990,095	\$ 990,095
2025	87,000	-	87,000
2026	<u>264,674</u>	<u>-</u>	<u>264,674</u>
	<u>\$ 351,674</u>	<u>\$ 990,095</u>	<u>\$ 1,341,769</u>

See Auditors' Report

Oak Shores Community Association

Notes to Financial Statements

For the year ended December 31, 2023

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, 2023, were as follows:

	<u>Amount</u>
Amortization of Finance Lease Right-of-Use Assets	\$ 2,391
Interest on Finance Lease Liabilities	<u>566</u>
Total lease costs	<u>\$ 2,957</u>

Cash paid in 2023 for amounts included in the measurement of lease liabilities	\$ 2,758
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Lease cash flows over the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2024	\$ 2,758
2025	2,758
2026	2,758
2027	1,381
Thereafter	<u>none</u>
Undiscounted lease payments	9,655
Less amounts representing interest	<u>(919)</u>
Lease liability recorded on the balance sheet	<u>\$ 8,736</u>

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 in Other General and Administrative costs, in the accompanying Statement of Revenues and Expenses and Changes in Fund Balances. As of December 31, 2023, the remaining term of both leases is 42 months.

NOTE 9 - RELATED PARTY TRANSACTIONS, VOLUNTEER MEDICAL AND FIRE BRIGADE

In Fiscal 2023, the Oak Shores Volunteer Medical and Fire Brigade (the OSVFB) was formed as a 501(c)(3) non-profit charitable organization to provide fire and emergency medical services to the Oak Shores Community. The OSVFB is a separate legal entity from the Association. The Board of Directors of the Association may appoint two seats out of the seven seats on the Board of Directors of the OSVFB, but the OSVFB is not a committee controlled by the Association's Board of Directors. In Fiscal 2023, the Association provided financial support to the OSVFB by paying \$4,930 for certain one-time organization costs; however, going forward, the Association does not intend to use Regular Assessment Dues to support the OSVFB. Also, during Fiscal 2023, the Corner Store donated \$2,400 of its profits to the OSVFB, and the Recreation Committee organized a fundraising event to raise funds for the Brigade. Proceeds from the Recreation Committee-sponsored fundraising event, net of cost incurred, totaled \$6,553 and were contributed to the OSVFB. Since this fundraising event was specifically held to raise funds for the OSVFB, the proceeds, costs, and net profits from the event are not included in the accompanying financial statements of the Association.

Oak Shores Community Association

Notes to Financial Statements

For the year ended December 31, 2023

NOTE 10 – ROAD MAINTENANCE, SLOPE, AND EROSION CONTROL

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 eroded and sloughed mud onto roadways, debris collected in the marina, trees and fences were damaged, and water overtopped the curb on Turkey Cove Road eroding the hillside and compromising the underlying roadbed. In addition, significant erosion damage and drainage problems were incurred on the hillside above Lands End Road, the slope area between Boat Hook Road and the Maintenance Yard, and the Easternmost hillside above Cove Lane.

Significant costs were incurred in Fiscal 2023 to begin repair of the aforementioned damages and hillside erosion. The costs incurred in Fiscal 2023 and charged to the Replacement Fund are summarized as follows:

<u>Description</u>	<u>Amount</u>
Road asphalt overlay	\$ 18,364
Replace section of storm damaged Turkey Cove Road	48,108
Engineering, construction support, and survey work on eroded areas	18,799
Large Rip-rap rock	30,000
Stabilize large boulder, remove compromised soil, square and bench eroded area above Lands End Road	104,650
Anchor Circle drain repair	6,547
Storm damage clean-up and debris and tree removal	<u>78,045</u>
Total road and slope repairs and maintenance	<u>\$ 304,513</u>

During the period from January 1, 2024, to the date of release of this report on June 25, 2024, additional costs were incurred on hillside stabilization and erosion control. See Note 11 – Subsequent Events.

NOTE 11 – SUBSEQUENT EVENTS

Hillside and Erosion Control

In February, March, and April 2024, the Association incurred and paid out of the Replacement Fund a total of \$104,940 to complete the stabilization of the hillside above and around Lands End Road. The work included removing compromised soil, squaring off and benching the hillside, placing large rip-rap rocks, adding a traffic-rated drainage box beneath the road, completing new cement curbs and flat work, and repairing the asphalt road.

In Executive Session meetings of the Board of Directors in March, April, and May 2024, the Board approved contracts for erosion repair and hillside stabilization work on the hillside between Boat Hook Road and the Sewer Treatment Facility and for the Easternmost hillside above Cove Lane. The aggregate cost of projects at these two locations is \$124,830, and will be charged to the Replacement Fund. Additional work in the Cove Lane area will be necessary to complete a drainage relief channel; however, a cost estimate for this work is not yet available.

The Board has also engaged a civil engineering firm to identify additional areas in the Community that may threaten life and property, determine the necessary remediation steps, and prioritize the timing and sequencing of projects with input from the Board. Substantial additional costs may be incurred in Fiscal 2024 and beyond to remediate identified threats.

Subsequent events were evaluated through the date these financial statements were issued on June 25, 2024.

Oak Shores Community Association
Supplemental Information on Replacement Fund Balances
For the Year Ended December 31, 2023
(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 2023, and the next site visit will be in 2026. On November 22, 2023, an outside consultant completed and issued a Reserve Study with a site visit. The Reserve Study covers the 30-year projection period starting January 1, 2024. Funding has been provided with provisions for inflation of 3% and interest earnings of 2%.

The following table presents the significant components of common property and the funding status based on the Reserve Study Report for January 1, 2024:

<u>Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>
Campground and Mini-Golf Course	0 – 20 years	\$ 214,200
Clubhouse	0 – 21 years	398,200
Community Entrance	0 – 29 years	185,700
Maintenance Shop	0 – 14 years	84,700
Marina	0 – 25 years	1,164,600
Painting	0 – 4 years	71,600
Pool Area	0 – 9 years	112,600
Roads - Overlay	0 – 15 years	4,682,000
Roads – Micro-surfacing	2 – 6 years	1,350,900
Roads - Other	0 – 15 years	495,000
Roofing	1 – 23 years	130,700
Security and Fencing	0 – 11 years	146,600
Vehicles	0 – 9 years	352,300
		<u>\$ 9,389,100</u>
Replacement Fund Balance as of January 1, 2024		<u>\$ 2,984,316</u>
Ideal Balance as of January 1, 2024		<u>\$ 5,657,852</u>

Private Marina docks and slips with an estimated current replacement cost of \$1,116,300 and estimated remaining useful lives of 11 to 24 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, 2023
(unaudited)

The Reserve Study used a pooled funding method that included an inflation factor of 3.0% for the duration of the study through 2053. The assessments designated for major repairs and replacements during the upcoming Fiscal 2024 are \$747,797.

During the year ended December 31, 2023, the Replacement Fund purchased and transferred assets to the Operating Fund, or reimbursed the Operating Fund with cash for assets purchased by the Operating Fund, the following amounts:

<u>Component Category</u>	<u>Cost</u>
Vehicles - New Holland tractor	\$ 61,017
Watercraft - Boat motor	12,513
Marina - Winch cages & other	645
Machinery and Equipment -	
Soda machine	6,006
Electric string trimmers	3,053
Computers and related	<u>11,418</u>
Total	<u>\$ 94,652</u>

Oak Shores Community Association
Schedule of Revenues and Expenses - Budget And Actual
For the Year Ended December 31, 2023
(Unaudited)

	Actual	Unaudited	
		Budget	Variance
OPERATING FUND			
<u>REVENUES</u>			
Regular Assessments	\$ 1,467,172	\$ 1,467,173	(1)
Interest Income	898	50	848
Rubbish Fee Income	251,582	255,000	(3,418)
Owner Rental Fees	45,850	39,300	6,550
Fire Department Rental Fees	8,954	3,708	5,246
Watercraft Fees	58,870	25,000	33,870
Owner Fee Income	24,444	18,600	5,844
Committee Revenues	24,620	36,000	(11,380)
Lease Income from Private Marina	77,262	75,725	1,537
Other Income	50,392	42,400	7,992
Total Revenues	2,010,044	1,962,956	47,088
<u>EXPENSES</u>			
<u>General and Administrative Expenses</u>			
Insurance	117,252	111,015	(6,237)
Legal Fees	35,096	40,000	4,904
Outside Services	95,388	46,000	(49,388)
Allowance for Doubtful Accounts	13,626	2,500	(11,126)
Auditing and Accounting	9,500	11,000	1,500
Income Taxes	26,829	8,500	(18,329)
Printing and Reproduction	7,020	6,600	(420)
Other General and Administrative	55,537	68,900	13,363
<u>Payroll and Related Costs</u>			
Salaries	903,861	792,876	(110,985)
Payroll Taxes	73,110	70,121	(2,989)
Employee Health Benefits and Other Costs	117,569	112,170	(5,399)
<u>Utilities</u>			
Rubbish Service	263,515	261,000	(2,515)
Water and Fire Hydrants	208,572	196,400	(12,172)
Electricity and Propane	43,710	44,900	1,190
Telephone and Other	35,187	19,600	(15,587)
Depreciation and Amortization	47,396	52,300	4,904
Committee Expenses	19,392	22,000	2,608
Private Marina Expense	93,721	63,515	(30,206)
Transportation Costs	42,237	45,200	2,963
Maintenance and Repairs	64,837	62,700	(2,137)
Gate Property Purchase and Improvements	12,557	31,750	19,193
Volunteer Fire and Medical Brigade	7,330	12,000	4,670
Capital Spending	98,739	5,000	(93,739)
Total Expenses	2,391,981	2,086,047	(305,934)
Excess (Deficiency) of Revenues Over Expenses	\$ (381,937)	\$ (123,091)	\$ (258,846)

REPLACEMENT FUND

<u>REVENUES</u>			
Assessments	\$ 738,620	\$ 738,620	\$ -
Interest Income	100,860	63,774	37,086
Other Income	9,275	9,500	(225)
Total Revenues	848,755	811,894	36,861
<u>EXPENSES</u>			
Major Repairs and Replacements, excluding capitalized Prop. and Equi	402,016	993,730	591,714
Total Expenses	402,016	993,730	591,714
Excess of Revenues Over Expenses	\$ 446,739	\$ (181,836)	\$ (554,853)
Property and Equipment Purchased and Capitalized	\$ (94,653)	\$ (128,800)	\$ 34,147

Oak Shores Community Association
Summarized Schedule of Private Marina Activity
As of and For the Year Ended December 31, 2023
Unaudited

	Private Marina	
	Operations	Replacements
<u>Balance Sheets</u>		
Cash and Cash Equivalents	\$ 3,427	\$ 90,572
Accounts Receivable	1,480	-
Dock permits	3,450	-
Prepaid Insurance	21,467	-
Total Assets	<u>\$ 29,824</u>	<u>\$ 90,572</u>
Accounts Payable	\$ -	\$ -
Other Liabilities	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Fund Balances	29,824	90,572
Total Liabilities and Fund Balance	<u>\$ 29,824</u>	<u>\$ 90,572</u>
<u>Revenues and Expenses:</u>		
Total Revenues	\$ 76,438	\$ 824
Total Expenses	92,169	-
Excess (Deficiency) of Revenues Over Expenses	<u>(15,731)</u>	<u>824</u>
Fund Balances, Beginning of Year	\$ 16,555	\$ 118,748
Excess (Deficiency) of Revenues Over Expenses	(15,731)	824
Transfers	29,000	(29,000)
Fund Balances, End of Year	<u>\$ 29,824</u>	<u>\$ 90,572</u>