

THE OAKS COMMUNITY ASSOCIATION
(A Corporation)
FINANCIAL REPORT
(REVIEWED)
DECEMBER 31, 2023

C O N T E N T S

	PAGE
INDEPENDENT ACCOUNTANTS' REVIEW REPORT	1-2
FINANCIAL STATEMENTS	
Balance sheet	3
Statement of revenues, expenses and changes in fund balance (deficit)	4
Statement of cash flows	5
Notes to financial statements	6-9
SUPPLEMENTARY INFORMATION	
Future major repairs and replacements	10



INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors and Members
The Oaks Community Association
Ione, California

We have reviewed the accompanying financial statements of The Oaks Community Association (A Corporation), which comprise the balance sheet as of December 31, 2023, and the related statements of revenues, expenses, and changes in fund balance (deficit) and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of The Oaks Community Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Philip Lantsberger, CPA
Robert Gross, CPA
Nikolas A. Torres, CPA

3461 Brookside Road
Suite E
Stockton, California 95219
Ph: 209.474.1084
Fx: 209.474.0301
www.sglacpas.com

Emphasis of Other Matters

As explained in Note 3 to the financial statements, based upon the reserve study conducted in October 2023, there is an estimated reserve funding deficiency of \$2,805 per ownership interest as of December 31, 2023.

As explained in Note 4 to the financial statements, the operating fund has borrowed \$428,194 from the replacement fund as of December 31, 2023. The Association is not in compliance with the Davis-Stirling Act, which allows for interfund borrowing provided that the funds be paid back within twelve months.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on it.



Stockton, California
September 12, 2024

THE OAKS COMMUNITY ASSOCIATION

BALANCE SHEET DECEMBER 31, 2023

See Independent Accountants' Review Report

ASSETS	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and cash equivalents	\$ 111,230	\$ 120,602	\$ 231,832
Investments (Note 5)	-	300,000	300,000
Assessments receivable (less allowance for doubtful accounts of \$5,000)	23,436	-	23,436
Prepaid expenses	<u>5,473</u>	<u>-</u>	<u>5,473</u>
 Total assets	 <u><u>\$ 140,139</u></u>	 <u><u>\$ 420,602</u></u>	 <u><u>\$ 560,741</u></u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Assessments received in advance - operating	\$ 7,655	\$ -	\$ 7,655
Accounts payable	69,321	1,077	70,398
Accrued payroll	15,854	-	15,854
Interfund balances (Note 4)	428,194	(428,194)	-
Contract liabilities (assessments received in advance - replacement reserve)	<u>-</u>	<u>847,719</u>	<u>847,719</u>
 Total liabilities	 \$ 521,024	 \$ 420,602	 \$ 941,626
 Fund balance (deficit)	 <u>(380,885)</u>	 <u>-</u>	 <u>(380,885)</u>
 Total liabilities and fund balance (deficit)	 <u><u>\$ 140,139</u></u>	 <u><u>\$ 420,602</u></u>	 <u><u>\$ 560,741</u></u>

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE (DEFICIT) FOR THE YEAR ENDED DECEMBER 31, 2023

See Independent Accountants' Review Report

	Operating Fund	Replacement Fund	Total
REVENUES			
Membership assessments - dues	\$ 410,910	\$ 71,417	\$ 482,327
Utility charges	823,853	-	823,853
RV storage income	13,582	-	13,582
Fines and violations	25,510	-	25,510
Bad debt recovery	7,632	-	7,632
Clubhouse rental	625	-	625
Other income	442	-	442
Interest income	-	3,428	3,428
Total revenues	<u>\$ 1,282,554</u>	<u>\$ 74,845</u>	<u>\$ 1,357,399</u>
 EXPENSES			
Clubhouse	\$ 21,939	\$ -	\$ 21,939
Insurance	27,670	-	27,670
Legal and professional	12,000	-	12,000
Office expenses	29,463	-	29,463
Pool maintenance and supply	22,230	-	22,230
Repairs and maintenance	41,265	72,445	113,710
Reserve study	-	2,400	2,400
Taxes and permits	3,022	-	3,022
Utilities	500,971	-	500,971
Personnel costs	302,385	-	302,385
Water distribution system	1,903	-	1,903
Water plant	182,076	-	182,076
Total expenses	<u>\$ 1,144,924</u>	<u>\$ 74,845</u>	<u>\$ 1,219,769</u>
 Excess of revenues over expenses	\$ 137,630	\$ -	\$ 137,630
 Fund balance (deficit), beginning	<u>(518,515)</u>	<u>-</u>	<u>(518,515)</u>
 Fund balance (deficit), ending	<u><u>\$ (380,885)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (380,885)</u></u>

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

See Independent Accountants' Review Report

CASH FLOWS FROM OPERATING ACTIVITIES:	Operating Fund	Replacement Fund	Total
Excess of revenues over expenses	\$ 137,630	\$ -	\$ 137,630
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Changes in assets and liabilities:			
(Increase) in:			
Assessments receivable	(15,442)	-	(15,442)
Prepaid expenses	(2,090)	-	(2,090)
Increase in:			
Assessments received in advance - operating	805	-	805
Accounts payable	12,876	314	13,190
Accrued payroll	11,883	-	11,883
Contract liabilities (assessments received in advance - replacement reserve)	-	57,144	57,144
Net cash provided by operating activities	<u>\$ 145,662</u>	<u>\$ 57,458</u>	<u>\$ 203,120</u>
 CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of certificates of deposit	\$ -	\$ (300,000)	\$ (300,000)
Net cash (used in) investing activities	<u>\$ -</u>	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund borrowing	\$ (67,005)	\$ 67,005	\$ -
Net cash provided by (used in) financing activities	<u>\$ (67,005)</u>	<u>\$ 67,005</u>	<u>\$ -</u>
 Net increase (decrease) in cash and cash equivalents	\$ 78,657	\$ (175,537)	\$ (96,880)
Cash and cash equivalents at beginning of year	<u>32,573</u>	<u>296,139</u>	<u>328,712</u>
Cash and cash equivalents at end of year	<u><u>\$ 111,230</u></u>	<u><u>\$ 120,602</u></u>	<u><u>\$ 231,832</u></u>

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Oaks Community Association (the Association) is a nonprofit, mutual benefit corporation, located in Ione, California. Its primary purpose is to provide for the maintenance, preservation and architectural control of the grounds and common areas of the 209 residential lots in the Association. The Association provides billing for all utilities. The Association was incorporated October 1993 in the State of California. It derives its authority and responsibilities from a Declaration of Covenants, Conditions and Restrictions executed and recorded on January 14, 2004.

The Association is a non-profit, non-stock, membership organization operating for the benefit of the owners. Every owner of a residential unit is a member of the Association.

Significant Accounting Policies

The Association's revenues arise principally from assessments levied upon each unit. The assessment is based upon the total amount of funds necessary to pay the common expenses of the Association for the year. In addition, special assessments may be levied by the Board of Directors if the regular assessments are inadequate to meet the anticipated expenses each year.

The Association uses fund accounting prepared on the accrual basis of accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Member dues and assessments are recorded as income to the operating fund. Special assessments are recorded as restricted income to the fund that they are assessed for.

Operating Fund

This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund

This fund is used to accumulate financial resources designated for major repairs and replacements.

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 liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Member Assessments / Allowance for Uncollectible Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Annual assessments are due in monthly installments on the first day of each month and are considered delinquent if not received by the 15th day of the quarter. The Association's policy is to retain legal counsel and place liens on the property for payments not received. If dues become delinquent for over one year or if the past due amount is over \$1,800, it will cause a non-judicial foreclosure proceeding against the owner's property in compliance with the current applicable laws. An allowance for uncollectible assessments and fines is offset against the revenues to which they pertain. For the year ended December 31, 2023, this allowance was \$5,000. Prepaid assessments received by the Association in 2023 for 2024 were \$7,655.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2023, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal tax returns for 2021, 2022 and 2023 remain open to examination by the Internal Revenue Service; state income tax returns for 2020, 2021, 2022 and 2023 are open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Liabilities (Assessments received in advance – replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$790,575 and \$847,719, respectively.

NOTE 2. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 12, 2024, the date the financial statements were available to be issued.

NOTE 3. REPLACEMENT RESERVE

The California Civil Code requires that the Association provide an estimate of the replacement costs and the estimated remaining useful life of, and the methods of funding used to defray the future repair, replacement, or additions to, those major components which the Association is obligated to maintain. Accumulated funds, which aggregate \$847,719 at December 31, 2023, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who conducted a study with site visit in October 2023 to estimate the remaining useful lives and replacement costs of the common property components. The Association is providing funding for major repairs and replacements over the remaining useful lives of components based on estimates of future replacement costs. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If actual replacement costs exceed funds available, or if no fund was established for replacement of common areas, the Association has the right to increase the annual assessment, pass additional assessments or delay replacement until funds are available. Based on the reserve study's estimated fully funded balance of \$1,008,717, and the reserve cash on hand, the estimated deficiency in reserve funding as of December 31, 2023 is \$2,805 per ownership interest.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4. INTERFUND BORROWING

As of December 31, 2023, the operating fund owed the reserve fund \$428,194. The Davis-Stirling Act allows for borrowing from reserve fund, but must be paid back within twelve months.

Due to reserve fund - beginning of year	\$ 495,199
Reserve transfers made in excess of budget	(10,713)
Reserve expenses paid from operating fund	<u>(56,292)</u>
Due to reserve fund - end of year	<u><u>\$ 428,194</u></u>

NOTE 5. INVESTMENTS

ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investment securities are carried at amortized cost. Fair value is based on quoted prices in active markets (all Level 1 measurements) and consist of the following at December 31, 2023:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Held to Maturity:				
Certificates of deposit	\$ 300,000	\$ 1,820	\$ -	\$ 301,820
	<u><u>\$ 300,000</u></u>	<u><u>\$ 1,820</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 301,820</u></u>

SUPPLEMENTARY INFORMATION

THE OAKS COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS (COMPILED)
DECEMBER 31, 2023
See Independent Accountants' Review Report

An independent study was conducted in October 2023 with site visit to estimate the remaining useful lives and the replacement costs of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date. The study includes a 2.5% inflation factor and a 1.5% interest rate.

Reserve Component	Current Replacement Cost	Useful Life	Remaining Life	2023 Fully Funded Balance
Paving	\$ 746,614	2-25	0-5	\$ 566,098
Concrete	11,790	30	24	2,358
Painting: Exterior	11,712	5-8	1-4	7,242
Painting: Interior	6,315	10	3	4,421
Structural repairs	16,590	8-25	4-21	4,496
Roofing	50,640	15-30	1-24	46,990
Rehab	13,290	1-20	1-2	11,160
Gate equipment	27,703	8-18	1-10	20,147
Pool	27,519	5-24	1-7	14,757
Spa	17,018	2-10	0-6	9,222
Basketball / Sport court	1,053	8	1	921
Landscaping	3,045	20	7	1,979
Lakes / Ponds	30,610	8-20	1-7	16,205
Fencing	78,413	1-30	1-29	44,981
Retaining wall	57,567	8-24	6-9	32,423
Lighting	2,750	1	1	1,375
Mechanical equipment	42,550	10-25	1-10	36,552
Furnishings	4,520	8	2	3,390
Audio / Visual	979	10	0-3	799
Safety / Access	8,300	6	5	1,383
Flooring	16,567	10-25	3	12,382
Outdoor equipment	70,455	3-30	1-24	36,135
Appliances	3,380	15-20	1	3,196
Waste water treatment	113,090	10-25	1-12	56,667
Infrastructure	29,739	1-2	0-1	15,240
Miscellaneous	110,814	1-25	1-20	58,198
Totals	<u>\$ 1,503,023</u>			<u>\$ 1,008,717</u>