

**THE OAKS COMMUNITY
ASSOCIATION
(A Corporation)**

**FINANCIAL REPORT
(REVIEWED)**

DECEMBER 31, 2019

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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, 2019, 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.

Accountants' Conclusion on the Financial Statements

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.

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Emphasis of Other Matters

As explained in Note 4 to the financial statements, the operating fund has borrowed \$607,378 from the replacement fund as of December 31, 2019. 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 11 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
May 4, 2020

THE OAKS COMMUNITY ASSOCIATION

BALANCE SHEET DECEMBER 31, 2019

See Independent Accountants' Review Report

ASSETS	Operating Fund	Replacement Fund	Total
Cash	\$ 38,035	\$ 138,946	\$ 176,981
Assessments receivable (less allowance for doubtful accounts of \$ 65,000)	56,017	-	56,017
Prepaid expenses	6,421	-	6,421
Total assets	<u>\$ 100,473</u>	<u>\$ 138,946</u>	<u>\$ 239,419</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Assessments received in advance - operating	\$ 5,925	\$ -	\$ 5,925
Accounts payable	109,588	-	109,588
Interfund balances (Note 4)	607,378	(607,378)	-
Contract liabilities (assessments received in advance - replacement reserve) (Note 5)	-	746,324	746,324
Total liabilities	\$ 722,891	\$ 138,946	\$ 861,837
Fund balance (deficit)	<u>(622,418)</u>	<u>-</u>	<u>(622,418)</u>
Total liabilities and fund balance (deficit)	<u>\$ 100,473</u>	<u>\$ 138,946</u>	<u>\$ 239,419</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, 2019

See Independent Accountants' Review Report

REVENUES	Operating Fund	Replacement Fund	Total
Membership assessments - dues	\$ 267,428	\$ 92,308	\$ 359,736
Utility charges	620,844	-	620,844
RV storage income	11,725	-	11,725
Fines and other income	26,994	-	26,994
Interest income	35	2,213	2,248
Total revenues	\$ 927,026	\$ 94,521	\$ 1,021,547
EXPENSES			
Utilities	\$ 360,337	\$ -	\$ 360,337
Bad debts	36,697	-	36,697
Water plant	140,867	-	140,867
Sewer plant	75,424	-	75,424
Pool maintenance and supply	30,136	-	30,136
Wages	347,514	-	347,514
Repairs and maintenance	44,566	94,521	139,087
Legal and professional	12,477	-	12,477
Taxes and permits	7,418	-	7,418
Office expenses	24,294	-	24,294
Insurance	25,347	-	25,347
Other administrative expenses	21,303	-	21,303
Total expenses	\$ 1,126,380	\$ 94,521	\$ 1,220,901
(Excess) of expenses over revenues	\$ (199,354)	\$ -	\$ (199,354)
Fund balance (deficit), beginning	(423,064)	-	(423,064)
Fund balance (deficit) , ending	\$ (622,418)	\$ -	\$ (622,418)

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019**

See Independent Accountants' Review Report

CASH FLOWS FROM OPERATING ACTIVITIES:	Operating Fund	Replacement Fund	Total
	<u> </u>	<u> </u>	<u> </u>
(Excess) of expenses over revenues	\$ (199,354)	\$ -	\$ (199,354)
Adjustments to reconcile (excess) of expenses over revenues to net cash (used in) operating activities:			
Changes in assets and liabilities:			
Decrease in:			
Assessments receivable	2,831	-	2,831
Employee advance	3,386	-	3,386
Prepaid insurance	14,579	-	14,579
Increase (decrease) in:			
Assessments received in advance - operating	(17,361)	-	(17,361)
Accounts payable	77,246	-	77,246
Accrued payroll	(7,527)	-	(7,527)
Contract liabilities (assessments received in advance - replacement reserve)	<u> -</u>	<u> 36,150</u>	<u> 36,150</u>
Net cash (used in) operating activities	<u>\$ (126,200)</u>	<u>\$ 36,150</u>	<u>\$ (90,050)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund borrowing	<u>\$ 158,800</u>	<u>\$ (158,800)</u>	<u>\$ -</u>
Net cash provided by (used in) financing activities	<u>\$ 158,800</u>	<u>\$ (158,800)</u>	<u>\$ -</u>
 Net increase (decrease) in cash	\$ 32,600	\$ (122,650)	\$ (90,050)
 Cash at beginning of year	5,435	261,596	267,031
 Cash at end of year	<u><u>\$ 38,035</u></u>	<u><u>\$ 138,946</u></u>	<u><u>\$ 176,981</u></u>

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

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.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2019, 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 2017, 2018 and 2019 remain open to examination by the Internal Revenue Service; state income tax returns for 2016, 2017, 2018 and 2019 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.

Assessments Receivable / Allowance for Uncollectible Assessments

An allowance for uncollectible assessments and fines is offset against the revenues to which they pertain. For the year ended December 31, 2019, this allowance was \$65,000. Assessments received in 2019 for 2020 were \$5,925.

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 \$0 and \$746,324, respectively.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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 May 4, 2020, 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 \$746,324 at December 31, 2019, are held in separate accounts and are generally not available for operating purposes.

The Association engaged an independent consultant who updated a study without site visit dated as of December 14, 2018 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.

NOTE 4. INTERFUND BORROWING

As of December 31, 2019, the operating fund owed the reserve fund \$607,378. The Davis-Stirling Act allows for borrowing from reserve fund, but must be paid back within 12 months.

Due to reserve fund – beginning of year	\$ 448,578
Borrowing from reserves in 2019	<u>158,800</u>
Due to reserve fund – end of year	<u>\$ 607,378</u>

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities (assessments received in advance-replacement fund), as previously described.

The adoption of the new revenue recognition guidance resulted in the following change to fund balance as of January 1, 2019:

Fund balance, as previously reports, at January 1, 2019	\$	287,110
Adjustment		(710,174)
Fund balance (deficit), as adjusted, at January 1, 2019	\$	<u>(423,064)</u>

The effect of the adoption is a decrease in 2019 assessments by \$36,150 and a recording of a contract liability at December 31, 2019 of \$746,324. The Association has no customer contract modification that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2019 financial statements. Following are the line items from our balance sheet as of December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (Continued)

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Liabilities:</u>			
Contract liabilities (Assessments received in advance - replacement reserve)	-	746,324	746,324
Total liabilities	115,513	746,324	861,837
<u>Fund Balance:</u>			
Ending fund balance (deficit)	173,619	(746,324)	(572,705)

The following are the line items from the statement of revenues, expenses, and changes in fund balance (deficit) and the statement of cash flows for the year ended December 31, 2019, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Revenue:</u>			
Regular Assessments	\$ 395,886	\$ (36,150)	\$ 359,736
(Excess) of expenses over revenues	(163,204)	(36,150)	(199,354)
<u>Cash Flows:</u>			
(Excess) of expenses over revenues	(163,204)	(36,150)	(199,354)
Increase in contract liabilities	-	36,150	36,150
(Assessments received in advance-replacement reserve)			

NOTE 6. SUBSEQUENT EVENTS

The COVID-19 outbreak has caused business disruption through mandated and voluntary closings of various businesses that homeowners associations work with and rely on. As a result, the Association may experience a negative impact on its operations. The financial impact and duration cannot be determined at this time.

SUPPLEMENTARY INFORMATION

**THE OAKS COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS (COMPILED)**

DECEMBER 31, 2019

See Independent Accountants' Review Report

An independent study was conducted in December 2018 without site visit to estimate the remaining useful lives and the replacement costs of common property. The estimates were obtained from licensed contractors who inspected the 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 2.5% interest rate.

Reserve Component	Current Replacement Cost	Useful Life	Remaining Life	2019 Fully Funded Balance
Paving	\$ 463,007	5-25	3-8	\$ 404,643
Concrete	10,934	1-20	0-20	51
Painting: Exterior	8,825	5-10	0-1	3,967
Painting: Interior	5,156	10	1	5,285
Structural repairs	10,777	5-30	0-10	7,535
Roofing	47,006	20-30	1-7	38,797
Rehab	18,137	15-20	1-3	17,895
Gate equipment	14,929	8-10	0-7	5,287
Pool	19,037	5-24	0-12	6,884
Spa	11,439	5-10	1	11,725
Recreation	513	20	18	79
Basketball / Sport court	750	5	1	768
Landscaping	7,326	3-20	0-2	6,131
Lakes / Ponds	18,533	1-20	1-4	18,058
Fencing	46,661	3-30	1-20	33,140
Retaining wall	44,430	20	1	45,540
Lighting	5,928	1-20	0-19	4,475
Signage	1,854	5	1	1,900
Office equipment	3,253	2-8	0-7	2,461
Mechanical equipment	35,852	10-25	0-6	27,833
Furnishings	9,544	8-12	1-3	9,275
Audio / Visual	584	10	8	180
Safety / Access	12,902	1-6	0-4	6,096
Flooring	14,754	10-25	3-4	11,536
Outdoor equipment	29,270	4-30	0-13	25,030
Appliances	3,506	15-20	3	3,203
Waste water treatment	64,894	1-20	0-9	40,717
Infrastructure	30,882	5	0-4	12,694
Miscellaneous	93,846	1-20	0-7	48,706
Totals	<u>\$ 1,034,529</u>			<u>\$ 799,891</u>