

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

**FINANCIAL REPORT
(REVIEWED)**

DECEMBER 31, 2018

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**Schwartz
Giannini
Lantsberger
& Adamson**
ACCOUNTANCY
CORPORATION

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, 2018, 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.

Philip Lantsberger, CPA
Robert Gross, CPA
Nikolas Torres, CPA
Timothy J. Schwartz, CPA,
Retired
Gary F. Giannini, CPA
Retired
William H. Adamson,
Retired

4578 Feather River Drive
Suite D
Stockton CA, 95219
Ph: 209.474.1084
F: 209.474.0301

6731 Herndon Place
Stockton, CA 95219
Ph: 209.951.9900

www.sglacpas.com

Emphasis of Other Matters

As explained in Note 4 to the financial statements, based upon the reserve study conducted in 2018, there is a reserve funding deficiency of \$2,486 per ownership interest as of December 31, 2018.

As explained in Note 5 to the financial statements, the operating fund has borrowed \$448,578 from the replacement fund as of December 31, 2018. 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.

Schwartz, Giannini, Santberg & Adams

Stockton, California
October 15, 2019

THE OAKS COMMUNITY ASSOCIATION

BALANCE SHEET DECEMBER 31, 2018

See Independent Accountants' Review Report

ASSETS	Operating Fund	Replacement Fund	Total
Cash	\$ 5,435	\$ 261,596	\$ 267,031
Assessments receivable (less allowance for doubtful accounts of \$ 34,000)	58,849	-	58,849
Employee advance	3,386	-	3,386
Prepaid expenses	21,000	-	21,000
Total assets	<u>\$ 88,670</u>	<u>\$ 261,596</u>	<u>\$ 350,266</u>

LIABILITIES AND FUND BALANCE (DEFICIT)

Prepaid assessments	\$ 23,286	\$ -	\$ 23,286
Accounts payable	32,343	-	32,343
Accrued payroll	7,527	-	7,527
Interfund balances (Note 5)	448,578	(448,578)	-
Total liabilities	\$ 511,734	\$ (448,578)	\$ 63,156
Fund balance (deficit)	(423,064)	710,174	287,110
Total liabilities and fund balance (deficit)	<u>\$ 88,670</u>	<u>\$ 261,596</u>	<u>\$ 350,266</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, 2018

See Independent Accountants' Review Report

REVENUES	Operating Fund	Replacement Fund	Total
Membership assessments - dues	\$ 217,234	\$ 123,854	\$ 341,088
Utility charges	599,997	-	599,997
RV storage income	11,850	-	11,850
Fines and other income	20,611	-	20,611
Interest income	-	1,367	1,367
Total revenue	\$ 849,692	\$ 125,221	\$ 974,913
EXPENSES			
Utilities	\$ 310,746	\$ -	\$ 310,746
Bad debts	11,000	-	11,000
Water plant	84,642	-	84,642
Sewer plant	54,300	-	54,300
Pool maintenance and supply	7,758	-	7,758
Wages	369,779	-	369,779
Repairs and maintenance	46,310	104,738	151,048
Legal and accounting	9,254	-	9,254
Taxes and permits	1,037	-	1,037
Office expenses	13,667	-	13,667
Insurance	19,184	-	19,184
Other administrative expenses	15,196	-	15,196
Total expenses	\$ 942,873	\$ 104,738	\$ 1,047,611
Excess (deficiency) of revenues over expenses	\$ (93,181)	\$ 20,483	\$ (72,698)
Fund balance (deficit), beginning	(329,883)	689,691	359,808
Fund balance (deficit) , ending	\$ (423,064)	\$ 710,174	\$ 287,110

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018 See Independent Accountants' Review Report

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Excess (deficiency) of revenues over expenses	\$ (93,181)	\$ 20,483	\$ (72,698)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:			
Changes in assets and liabilities:			
(Increase) in:			
Accounts receivable	(1,558)	-	(1,558)
Employee advance	(267)	-	(267)
Prepaid insurance	(8,097)	-	(8,097)
Increase in:			
Accounts payable	21,718	-	21,718
Accrued payroll	2,192	-	2,192
Prepaid assessments	9,501	-	9,501
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) operating activities	<u>\$ (69,692)</u>	<u>\$ 20,483</u>	<u>\$ (49,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal payments received on note receivable	<u>\$ 3,554</u>	<u>\$ -</u>	<u>\$ 3,554</u>
Net cash provided by investing activities	<u>\$ 3,554</u>	<u>\$ -</u>	<u>\$ 3,554</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund borrowing	<u>\$ 67,128</u>	<u>\$ (67,128)</u>	<u>\$ -</u>
Net cash provided by (used in) financing activities	<u>\$ 67,128</u>	<u>\$ (67,128)</u>	<u>\$ -</u>
Net increase (decrease) in cash	\$ 990	\$ (46,645)	\$ (45,655)
Cash at beginning of year	4,445	308,241	312,686
Cash at end of year	<u>\$ 5,435</u>	<u>\$261,596</u>	<u>\$267,031</u>

See Notes to Financial Statements.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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. The Association capitalizes personal property at cost and depreciates it using the straight line method.

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, 2018, 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 2016, 2017 and 2018 remain open to examination by the Internal Revenue Service; state income tax returns for 2015, 2016, 2017 and 2018 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, 2018, this allowance was \$34,000. Assessments received in 2018 for 2019 were \$23,286.

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 October 15, 2019, the date the financial statements were available to be issued.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 3. NOTE RECEIVABLE

In 2013, the Association sold property it had acquired in foreclosure for a note receivable in the amount of \$15,167. Terms call for bi-weekly payments of \$141.74, including 8% interest. The note matured December 2018. Interest collected for the year ended December 31, 2018 was \$131.

NOTE 4. 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 \$710,174 (net of liabilities and interfund balances) at December 31, 2018, 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.

Based on the reserve study's estimated fully funded reserve balance of \$781,173, and the accumulated funds on hand, the current deficiency in reserve funding as of December 31, 2018 is \$2,486 per ownership interest.

THE OAKS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5. INTERFUND BORROWING

As of December 31, 2018, the operating fund owed the reserve fund \$448,578. 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	\$ 381,450
Borrowing from reserves in 2018	<u>67,128</u>
Due to reserve fund – end of year	<u>\$ 448,578</u>

SUPPLEMENTARY INFORMATION

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

DECEMBER 31, 2018

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	2018 Fully Funded Balance
Paving	\$ 463,007	5-25	3-8	\$ 368,115
Concrete	10,934	1-20	0-20	9,982
Painting: Exterior	8,825	5-10	0-1	8,271
Painting: Interior	5,156	10	1	4,640
Structural repairs	10,777	5-30	0-10	8,897
Roofing	47,006	20-30	1-7	36,264
Rehab	18,137	15-20	1-3	16,363
Gate equipment	14,929	8-10	0-7	5,573
Pool	19,037	5-24	0-12	15,540
Spa	11,439	5-10	1	9,701
Recreation	513	20	18	51
Basketball / Sport court	750	5	1	600
Landscaping	7,326	3-20	0-2	6,752
Lakes / Ponds	18,533	1-20	1-4	12,229
Fencing	46,661	3-30	1-20	30,066
Retaining wall	44,430	20	1	42,208
Lighting	5,928	1-20	0-19	4,114
Signage	1,854	5	1	1,483
Office equipment	3,253	2-8	0-7	2,016
Mechanical equipment	35,852	10-25	0-6	28,891
Furnishings	9,544	8-12	1-3	7,994
Audio / Visual	584	10	8	117
Safety / Access	12,902	1-6	0-4	4,972
Flooring	14,754	10-25	3-4	10,008
Outdoor equipment	29,270	4-30	0-13	24,338
Appliances	3,506	15-20	3	2,935
Waste water treatment	64,894	1-20	0-9	35,156
Infrastructure	30,882	5	0-4	14,482
Miscellaneous	93,846	1-20	0-7	69,415
Totals	<u>\$ 1,034,529</u>			<u>\$ 781,173</u>