

**Odd Fellows Sierra Recreation Association, Inc.**

Financial Statements

For the Year Ended May 31, 1994

**ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.**  
**TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheet	2
Statement of Revenues and Expenses	3
Statement of Changes in Members' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6

# Hohne, Hohne & Roberson



Certified Public Accountants, Inc.

**ROBERT J. HOHNE, JR.**  
**PATRICIA BRYANT HOHNE**  
**RONALD N. ROBERSON**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Odd Fellows Sierra Recreation Association, Inc.

We have audited the accompanying balance sheet of Odd Fellows Sierra Recreation Association, Inc. as of May 31, 1994, and the related statements of revenues, expenses, and changes in members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Odd Fellows Sierra Recreation Association, Inc. as of May 31, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Odd Fellows Sierra Recreation Association, Inc. has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

*Hohne Hohne & Roberson, CPA's, Inc.*

Twain Harte, California  
September 30, 1994

**ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.**  
**BALANCE SHEET**  
December 31, 1994

**ASSETS**

Cash	\$190,376
Investments	115,623
Property and equipment - net of accumulated depreciation	<u>106,178</u>
Total assets	<u><u>\$412,177</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Accounts payable and accrued expenses	\$ 560
Income tax payable	<u>3,118</u>
Total liabilities	3,678
Members' equity	<u>408,499</u>
Total liabilities and member's equity	<u><u>\$412,177</u></u>

See accompanying notes to financial statements.

**ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS'**  
**EQUITY**

Year Ended May 31, 1994

REVENUES

Member assessments	\$139,647
Recreation activities	1,416
Timber sales	16,668
Interest income	5,305
Donations	<u>943</u>
	163,979

EXPENSES

Accounting and professional	6,471
Auto expense	4,894
Bank charges	10
Depreciation	19,426
Income taxes	5,300
Insurance	18,838
Postage	1,698
Recreation activities	2,023
Refuse disposal	6,774
Repairs and maintenance	24,365
Salaries and wages	20,597
Supplies	697
Taxes and licenses	5,058
Telephone	383
Utilities	7,872
Water testing	<u>4,805</u>
	<u>129,211</u>

EXCESS OF REVENUES OVER EXPENSES \$ 34,768

MEMBERS' EQUITY - June 1, 1993 373,731

MEMBERS' EQUITY - May 31, 1994 \$408,499

See accompanying notes to financial statements.

**ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
Year Ended May 31, 1994

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Excess of revenues over expenses	\$ 34,768
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:	
Depreciation	19,426
(Increase) decrease in:	
Prepaid expenses	2,182
Increase (decrease) in:	
Accounts payable and accrued expenses	(77)
Income taxes payable	<u>3,118</u>
<b>NET CASH PROVIDED FROM OPERATING ACTIVITIES</b>	<b>59,417</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of land	(115,623)
Purchase of assets	<u>(5,050)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(61,256)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b><u>251,630</u></b>
<b>CASH AT END OF YEAR</b>	<b><u>\$190,376</u></b>

See accompanying notes to financial statements.

**ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - NATURE OF ORGANIZATION**

Odd Fellows Sierra Recreation Association, Inc. (the "Association") is incorporated as a not-for-profit corporation in the State of California for the purpose of operating and maintaining the common property of Odd Fellows Sierra Recreation Association, Inc. The Association consists of 365 residential lots located in Long Barn, California. The Association began its operations in May of 1949.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Member 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. Such assessments are billed to members on June 1 each year and collected throughout the Association's fiscal year. Uncollected assessments are treated as bad debts at the balance sheet date. Uncollectable accounts were less than \$1,000 for the year ended May 31, 1994. Any excess assessments at year end are retained by the Association for use in future years.

Income Taxes

Homeowners associations may be taxed either as homeowners' associations or as regular corporations. For the year ended May 31, 1994, the Association will be taxed as a regular corporation. As a regular corporation, membership income is exempt from income if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership. Property and equipment acquired by the Association are stated at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

Depreciation

Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

## NOTE C - PROPERTY AND EQUIPMENT

Property and equipment as of May 31, 1994 consists of the following:

Water system	\$ 110,174
Roadways and related improvements	76,802
Maintenance equipment	44,835
Vehicles	94,472
Office fixtures	<u>1,193</u>
	327,476
Accumulated depreciation	<u>(196,922)</u>
	<u>\$ 130,554</u>





September 30, 1994

To the Board of Directors of the  
Odd Fellows Sierra Recreation Association

In planning and performing our audit of the financial statements of Odd Fellows Sierra Recreation Association for the year ended May 31, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure .

However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Odd Fellows Sierra Recreation Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

## REPORTABLE CONDITIONS

- Because of the nature of the Association's operations, the accounting duties are not segregated as suggested by internal control procedures. Compensating measures should be adopted. The Board should approve and initial all bank reconciliation's and look at the original bank statements and canceled checks on a monthly basis. California Civil Code Section 1365.5 requires that the board review bank statements and bank reconciliation's of all operating and reserve accounts at least quarterly.
- Currently, certain investment accounts are maintained at World Savings. World Savings does not issue bank statements. The Association is issued a 1099 at the end of the calendar year with the account balance noted. We suggest all operating and reserve funds should be invested at an institution that will provide monthly account statements for the boards review.

During our audit we also became aware of several matters that, while not reportable conditions under American Institute of Certified Public Accountants standards, are opportunities for strengthening internal controls and operating efficiency of the Association.

#### OTHER COMMENTS AND RECOMMENDATIONS

- The Association has not established a formal plan for funding its major repairs and replacements of common area components. We recommend that the Association conduct a study to estimate the costs of repairing and replacing those components and that computations be made as to the amount of funds the Association should accumulate to make the necessary repairs and replacements. That process will necessitate preparing formal budgets for future expenditures, identifying all items for which the Association is responsible, and estimating the nature, timing, and cost of future repairs and replacements.
  
- In addition to the item noted above, the board currently does not appear to be in compliance with several California Civil Code requirements:
  1. Code section 1365 (a) requires that an accrual basis operating budget, together with reserve and replacement fund information, be sent to all members between 45 and 60 days prior to the beginning of the Association's fiscal year. This information must include information from a formal study of the estimated replacement costs and maintenance of all major capital components.
  2. Code section 1365 (b) requires an annual review of the financial statements by a certified public accountant for any fiscal year in which gross income to the Association exceeds \$75,000. A copy of the reviewed financial statements is to be distributed within 120 days of the fiscal year-end.
  3. Code section 1365 (d) requires that a statement describing the Association's policies for enforcing lien rights for its assessments against its members shall be delivered to the members during the 60-day period immediately preceding the beginning of the Association's fiscal year.
  4. Code section 1365.5 requires that a reserve study be conducted every three years and that the Board review the study annually. Also, authorization is required by two board members before monies can be withdrawn from the Association's reserve accounts.
  5. Code section 1366.1 requires that an association shall not impose or collect any assessment that exceeds the amount necessary for the purpose for which it was levied.

We recommend compliance with all pertinent California Civil Code sections as soon as is practicable.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Association. We will review the status of these comments during future engagements. We have discussed these items with Tim Flavin, the Association's bookkeeper and would be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Very truly yours,

*Holme Holme! Roberson, CPA's, Inc.*

common areas, and other conditions as the association determines reasonable. (*Added by Stats.1985, c. 874, § 14. Amended by Stats.1987, c. 357, § 2; Stats.1987, c. 1151, § 1.*)

Former § 1364 was repealed by Stats.1931, c. 281, § 1700. See, now, Prob. C. § 322.

**§ 1365. Documents prepared and distributed by associations**

Unless the declaration imposes more stringent standards, the association shall prepare and distribute to all its members the following documents:

(a) A pro forma operating budget, which shall include all of the following:

(1) The estimated revenue and expenses on an accrual basis.

\* \* \*

(2) A summary of the association's reserves based upon the most recent review or study conducted pursuant to Section 1365.5, which shall be printed in bold type and include all of the following:

(A) The current estimated replacement cost, estimated remaining life, and estimated useful life of each major component.

(B) As of the end of the fiscal year for which the study is prepared:

(i) The current estimate of the amount of cash reserves necessary to repair, replace, restore, or maintain the major components.

(ii) The current amount of accumulated cash reserves actually set aside to repair, replace, restore, or maintain major components.

(C) The percentage that the amount determined for purposes of clause (ii) of subparagraph (B) is of the amount determined for purposes of clause (i) of subparagraph (B).

(3) A statement as to whether the board of directors of the association has determined or anticipates that the levy of one or more special assessments will be required to repair, replace, or restore any major component or to provide adequate reserves therefor.

(4) A general statement addressing the procedures used for the calculation and establishment of those reserves to defray the future repair, replacement, or additions to those major components that the association is obligated to maintain.

The summary of the association's reserves disclosed pursuant to paragraph (2) shall not be admissible in evidence to show improper financial management of an association, provided that other relevant and competent evidence of the financial condition of the association is not made inadmissible by this provision.

A copy of the operating budget shall be annually distributed not less than 45 days nor more than 60 days prior to the beginning of the association's fiscal year.

(b) A review of the financial statement of the association shall be prepared in accordance with generally accepted accounting principles by a licensee of the California State Board of Accountancy for any fiscal year in which the gross income to the association exceeds seventy-five thousand dollars (\$75,000). A copy of the review of the financial statement shall be distributed within 120 days after the close of each fiscal year.

(c) In lieu of the distribution of the pro forma operating budget required by subdivision (a), the board of directors may elect to distribute a summary of the pro forma operating budget to all its members with a written notice that the pro forma operating budget is available at the business office of the association or at another suitable location within the boundaries of the development and that copies will be provided upon request and at the expense of the association. If any member requests that a copy of the pro forma operating budget required by subdivision (a) be mailed to the member, the association shall provide the copy to the member by first-class United States mail at the expense of the association and delivered within five days. The written notice that is distributed to each of the association members shall be in at least 10-point bold type on the front page of the summary of the budget.

(d) A statement describing the association's policies and practices in enforcing lien rights or other legal remedies for default in payment of its assessments against its members shall be annually delivered to the members during the 60-day period immediately preceding the beginning of the association's fiscal year. (*Added by Stats.1985, c. 874, § 14. Amended by Stats.1988, c. 1388, § 1; Stats.1988, c. 1409, § 3; Stats.1990, c. 716 (A.B.2438), § 1; Stats.1991, c. 412 (A.B.623), § 1.*)

Former § 1365 was repealed by Stats.1931, c. 281, § 1700. See, now, Prob. C. § 1065.

**§ 1365.5. Board of directors; duties**

(a) Unless the governing documents impose more stringent standards, the board of directors of the association shall do all of the following:

(1) Review a current reconciliation of the association's operating accounts on at least a quarterly basis.

(2) Review a current reconciliation of the association's reserve accounts on at least a quarterly basis.

(3) Review, on at least a quarterly basis, the current year's actual reserve revenues and expenses compared to the current year's budget.

(4) Review the latest account statements prepared by the financial institutions where the association has its operating and reserve accounts.

(5) Review an income and expense statement for the association's operating and reserve accounts on at least a quarterly basis.

(b) The signatures of at least two persons, who shall be members of the association's board of directors, or \* \* \* one officer who is not a member of the board of directors and a member of the board of directors, shall be required

for the withdrawal of moneys from the association's reserve accounts.

~~(c) The board of directors shall not expend funds designated as reserve funds for any purpose other than the repair, restoration, replacement, or maintenance of, or litigation involving the repair, restoration, replacement, or maintenance of, major components which the association is obligated to repair, restore, replace, or maintain and for which the reserve fund was established. However, the board may authorize the temporary transfer of money from a reserve fund to the association's general operating fund to meet short-term cash-flow requirements or other expenses. The transferred funds shall be restored to the reserve fund within three years of the date of the initial transfer, except that the board may, upon making a finding supported by documentation that a delay would be in the best interests of the common interest development, delay the restoration until the time which the board reasonably determines to be necessary. The board shall exercise prudent fiscal management in delaying restoration of these funds and in restoring the expended funds to the reserve account, and shall, if necessary, levy a special assessment to recover the full amount of the expended funds within the time limits required by this section. This special assessment is not subject to the limitation imposed by Section 1366.~~

~~(d) At least once every three years the board of directors shall cause a study of the reserve account requirements of the common interest development to be conducted if the current replacement value of the major components which the association is obligated to repair, replace, restore, or maintain is equal to or greater than one-half of the gross budget of the association for any fiscal year. The board shall review this study annually and shall consider and implement necessary adjustments to the board's analysis of the reserve account requirements as a result of that review.~~

~~The study required by this subdivision shall at a minimum include:~~

~~(1) Identification of the major components which the association is obligated to repair, replace, restore, or maintain which, as of the date of the study, have a remaining useful life of less than 30 years.~~

~~(2) Identification of the probable remaining useful life of the components identified in paragraph (1) as of the date of the study.~~

~~(3) An estimate of the cost of repair, replacement, restoration, or maintenance of each major component identified in paragraph (1) during and at the end of its useful life.~~

~~(4) An estimate of the total annual contribution necessary to defray the cost to repair, replace, restore, or maintain each major component during and at the end of its useful life, after subtracting total reserve funds as of the date of the study.~~

(e) As used in this section, "reserve accounts" means moneys that the association's board of directors has identified \* \* \* for use to defray the future repair or

replacement of, or additions to, those major components which the association is obligated to maintain.

(f) ~~As used in this section, "reserve account requirements" means the estimated funds which the association's board of directors has determined are required to be available at a specified point in time to repair, replace, or restore those major components which the association is obligated to maintain.~~

(g) This section does not apply to an association that does not have a "common area" as defined in Section 1351. (Added by Stats.1986, c. 294, § 1. Amended by Stats.1991, c. 355 (A.B.871), § 1.)

§ 1365.7. Tortious act or omission of volunteer officer or director of association managing residential development; liability; criteria; limitations

(a) Any person who suffers bodily injury, including, but not limited to, emotional distress, or wrongful death as a result of the tortious act or omission of a volunteer officer or volunteer director of an association managing a common interest development which is exclusively residential, as defined in subdivision (a) of Section 1351, shall not recover damages from a volunteer officer or volunteer director if all of the following criteria are met:

(1) The act or omission was performed within the scope of the officer's or director's association duties.

(2) The act or omission was performed in good faith.

(3) The act or omission was not willful, wanton, or grossly negligent.

(4) The association maintained and had in effect at the time the act or omission occurred and at the time a claim is made general liability insurance in either of the following amounts:

(A) At least five hundred thousand dollars (\$500,000) if the common interest development consists of 100 or fewer separate interests.

(B) At least one million dollars (\$1,000,000) if the common interest development consists of more than 100 separate interests.

(b) The payment of actual expenses incurred by a director or officer in the execution of the duties of that position does not affect the director's or officer's status as a volunteer within the meaning of this section.

(c) An officer or director who at the time of the act or omission received either direct or indirect compensation as an employee from the declarant, as defined in subdivision (g) of Section 1351, or from a financial institution that purchased a separate interest, as defined in subdivision (l) of Section 1351, at a judicial or nonjudicial foreclosure of a mortgage or deed of trust on real property, is not a volunteer for the purposes of this section.

(d) Nothing in this section shall be construed to limit the liability of the association for its negligent act or omission or for any negligent act or omission of an officer or director of the association.