

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

MAY 31, 1997

Eric A. Carlson Accountancy Corporation

14570 Mono Way, Suite G • Sonora, California 95370
209/532-5171 • FAX 209/532-7686

INDEPENDENT AUDITOR'S REPORT

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

I have audited the accompanying balance sheet of Odd Fellows Sierra Recreation Association, Inc. as of May 31, 1997, and the related statements of income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on these statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.



Sonora, California
September 24, 1997

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.
BALANCE SHEET

MAY 31, 1997

CURRENT ASSETS

Cash and cash equivalents	\$180,535
Accrued interest receivable	825
Prepaid expenses	<u>15,628</u>
Total Current Assets	196,988

PROPERTY, EQUIPMENT, and VEHICLES

Property, equipment, and vehicles	647,608
Accumulated depreciation	<u>(332,059)</u>
Total Property, Equipment and Vehicles	<u>315,549</u>

Total Assets \$512,537

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 6,463
Accrued expenses	<u>299</u>
Total Current Liabilities	6,762

MEMBERS' EQUITY

505,775

Total Liabilities and Members' Equity \$512,537

The accompanying notes are an integral part of these statements.

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.
STATEMENT OF INCOME

FOR THE YEAR ENDED MAY 31, 1997

REVENUES

Member assessments	\$157,804
Recreation activities	1,603
Interest income	13,351
Rental income	<u>4,041</u>
Total Revenues	176,799

EXPENSES

Accounting and professional	4,578
Auto expense	6,287
Bank charges	11
Depreciation	35,951
Employee benefits	1,988
Insurance	19,584
Miscellaneous	147
Outside services	3,305
Postage	2,182
Recreation activities	1,853
Refuse disposal	8,147
Repairs and maintenance	26,451
Salaries and wages	46,796
Supplies	1,782
Payroll taxes	4,442
Property taxes	2,868
Telephone	932
Utilities	9,030
Water testing	<u>3,669</u>
Total Expenses	<u>180,003</u>
NET LOSS BEFORE INCOME TAXES	(3,204)
Income taxes	<u>1,129</u>
NET LOSS	<u>\$ (4,333)</u>

The accompanying notes are an integral part of these statements.

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.
STATEMENT OF MEMBERS' EQUITY

FOR THE YEAR ENDED MAY 31, 1997

Balance, May 31, 1996	\$510,108
Net loss	<u>(4,333)</u>
Balance, May 31, 1997	<u>\$505,775</u>

The accompanying notes are an integral part of these statements.

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MAY 31, 1997

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (4,333)
Adjustments to reconcile net loss to to cash provided by operating activities:	
Depreciation	35,951
Increase in prepaid expenses	(2,926)
Increase in accrued interest	(825)
Increase in accounts payable	5,965
Increase in payroll taxes payable	40
Decrease in income taxes payable	<u>(27,684)</u>
Net Cash Provided by Operating Activities	6,188

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to land improvements	(2,992)
Additions to property and equipment	<u>(49,373)</u>
Net Cash Used in Investing Activities	<u>(52,365)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (46,177)

CASH AND CASH EQUIVALENTS, MAY 31, 1996 226,712

CASH AND CASH EQUIVALENTS, MAY 31, 1997 \$180,535

SUPPLEMENTAL DISCLOSURES

Cash paid during the year for:	
Income taxes	<u><u>\$ 33,152</u></u>

The accompanying notes are an integral part of these statements.

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

MAY 31, 1997

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

A. NATURE OF ACTIVITIES

The Odd Fellows Sierra Recreation Association, Inc. (Association) was established in May 1949. The Association is incorporated under the state laws of California and amended its articles of incorporation on October 10, 1986.

The Association consists of approximately 400 acres of timberlands located in Long Barn, California. Within the boundaries of the Association exists a gated 365 lot subdivision and various park amenities. The purpose of the Association is to operate and maintain the common property of the Association, specifically the water system, garbage, and roads. The Association has established a timber plan to periodically log its timber. Proceeds from the timber harvest are used for capital acquisitions.

B. MEMBER ASSESSMENTS

Association members, the subdivision lot owners, are subject to annual assessments to provide funds for the Association's operating expenses. The assessments are based upon budgeted operating expenses. The Association's policy is to retain legal counsel and use the small claims court to collect delinquent assessments. As of May 31, 1997, there was no delinquent assessment receivable. Therefore, an allowance for doubtful accounts is not considered necessary by the Association.

C. BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

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

MAY 31, 1997

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

D. INCOME TAXES

The Association is taxed as a corporation under Section 277 of the Internal Revenue Code. There were no net operating loss carryforwards at May 31, 1997. The Association also recognizes Revenue Ruling 70-604 for tax purposes. For the year ended May 31, 1997, \$15,292 of Revenue Ruling 70-604 income is being recognized.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Association considers all cash and other highly liquid investments with initial maturities of three months or less and certificates of deposit to be cash equivalents.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - PROPERTY, EQUIPMENT, AND VEHICLES

Property, equipment, and vehicles to which the Association has title, are recorded at cost and are being depreciated using straight-line and accelerated methods for both financial reporting and income tax purposes. Property, equipment, and vehicles consisted of the following for the year ended May 31, 1997:

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

MAY 31, 1997

NOTE 2 - PROPERTY, EQUIPMENT, AND VEHICLES (CONT'D)

Land and improvements	\$132,454
Water system	142,216
Roadways and related improvements	148,097
Maintenance equipment and vehicles	220,592
Office equipment and furniture	<u>4,249</u>
	<u>\$647,608</u>

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has not conducted a study to determine the remaining useful lives of the roads and water systems and current estimated costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to utilize available cash, increase the timber harvest, pass special assessments, or delay repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE 4 - CONCENTRATION OF RISK

The Association has cash deposits in a financial institution in excess of amounts insured by agencies of the federal government in the amount of \$3,689 at May 31, 1997. In evaluating this credit risk, the Association periodically evaluates the stability of financial institutions used.

NOTE 5 - SUBSEQUENT EVENTS

On July 13, 1997, the Association's board voted to establish three reserve funds for water, roads, and equipment.

Eric A. Carlson Accountancy Corporation

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ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC.
AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

I have audited the financial statements of Odd Fellows Sierra Recreation Association, Inc., as of and for the year ended May 31, 1997, and have issued my report thereon dated September 24, 1997.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing my audit of the financial statements of Odd Fellows Sierra Recreation Association, Inc. for the year ended May 31, 1997, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

The management of Odd Fellows Sierra Recreation Association, Inc. is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statement. These reportable conditions are described in the Findings and Recommendations section of this report.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, I believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Odd Fellows Sierra Recreation Association, Inc.

A handwritten signature in cursive script, appearing to read "Geraldine Aumentary".

Sonora, California
September 24, 1997

ODD FELLOWS SIERRA RECREATION ASSOCIATION, INC., INC.
SUMMARY OF FINDINGS AND RECOMMENDATIONS

MAY 31, 1997

- 1) **Finding** - The Association is currently providing an employee with a monthly \$250 health insurance allowance and classifying the expense as employee health insurance. The \$250 cash payment to the employee should be treated as wages and reported as payroll with the required payroll taxes included as additional payroll tax expense.

Recommendation - Either purchase health insurance for your full-time employees or give a monthly raise to your employee equaling an additional \$250 per month net increase in take-home pay.

- 2) **Finding** - The annual assessments from property owners (members) are being paid directly to the Association and not to the Odd Fellows Sierra Homeowners' Association (Homeowners). It appears as if the Association is to charge the Homeowners an annual fee for the use of water, garbage, roads, and other common area property and maintenance thereof and that the members are to be assessed for these services annually by the Homeowners.

Recommendation - Seek legal advice on the current situation and make any necessary changes which are recommended.