

**NELLIE GAIL RANCH OWNERS' ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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FINANCIAL STATEMENTS
For the Year Ended September 30, 2019**

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Independent Auditor's Report

To the Board of Directors of Nellie Gail Ranch Owners' Association

We have audited the accompanying financial statements of Nellie Gail Ranch Owners' Association (the "Association"), which comprise the balance sheet as of September 30, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nellie Gail Ranch Owners' Association as of September 30, 2019, and results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter – Future Major Repairs and Replacements

Our audit was made for the purpose of forming an opinion on the basis financial statements, taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements (Note 4), are adequate to meet such future costs, because such determination is outside the scope of our audit. Our opinion is not modified with respect to this matter.

Disclaimer of Opinion of Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Repairs and Replacements on page 8 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Newman & Associates, CPA, PC

Newman & Associates CPA, PC

Carlsbad, California

January 15, 2020

NELLIE GAIL RANCH OWNERS' ASSOCIATION
BALANCE SHEET
September 30, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Equestrian Fund</u>	<u>Swim Fund</u>	<u>Tennis Fund</u>	<u>Total</u>
Assets						
Cash and cash equivalents	\$ 721,073	\$ 449,885	\$ 227,111	\$ 74,409	\$ 283,850	\$ 1,756,328
Investments	444,050	3,052,001	42,800	16,050	32,100	3,587,001
Assessments receivable	101,432		-			101,432
Allowance for doubtful accounts	(98,028)					(98,028)
Interest receivable		22,205				22,205
Prepaid insurance	35,286		9,419			44,705
Fixed assets	480,768		742,552	563,578	844,247	2,631,145
Accumulated depreciation	(375,699)		(613,690)	(477,371)	(695,693)	(2,162,453)
Due from (to) fund		35,766			(35,766)	
Total Assets	<u>\$ 1,308,882</u>	<u>\$ 3,559,857</u>	<u>\$ 408,192</u>	<u>\$ 176,666</u>	<u>\$ 428,738</u>	<u>\$ 5,882,335</u>
Liabilities						
Accounts payable	\$ 43,026	\$ 14,694	\$ 20,312	\$ 8,620	\$ 3,625	\$ 90,277
Payroll payable	9,810		5,487		4,017	19,314
Prepaid assessments	54,070					54,070
Paid time off payable	11,004		23,653		6,711	41,368
Income Tax payable	5,470					5,470
Deposits	392,451		63,196			455,647
Total liabilities	<u>515,831</u>	<u>14,694</u>	<u>112,648</u>	<u>8,620</u>	<u>14,353</u>	<u>666,146</u>
Fund balances	<u>793,051</u>	<u>3,545,163</u>	<u>295,544</u>	<u>168,046</u>	<u>414,385</u>	<u>5,216,189</u>
Total liabilities and fund balances	<u>\$ 1,308,882</u>	<u>\$ 3,559,857</u>	<u>\$ 408,192</u>	<u>\$ 176,666</u>	<u>\$ 428,738</u>	<u>\$ 5,882,335</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

NELLIE GAIL RANCH OWNERS' ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2019

	Operating Fund	Replacement Fund	Equestrian Fund	Swim Fund	Tennis Fund	Total
Revenues						
Owners' assessments	\$ 1,920,478	\$ 187,208	\$ -	\$ 132,258	\$ -	\$ 2,239,944
Equestrian center income		110,404	662,948			773,352
Swim club income		59,400		23,067		82,467
Tennis club income		81,604			172,705	254,309
Newsletter	82,299					82,299
Cell tower revenue	123,191					123,191
Interest	14,414	73,413	768	5	11	88,611
Maintenance revenue from Association			24,960			24,960
Other member income	53,576		125,045		6,418	185,039
Total revenues	<u>2,193,958</u>	<u>512,029</u>	<u>813,721</u>	<u>155,330</u>	<u>179,134</u>	<u>3,854,172</u>
Expenses						
Utilities						
Electricity and gas	4,255		15,958	62,736	36,499	119,448
Water and sewer	51,362		15,009	4,339	4,262	74,972
Trash removal	15,016			600	600	16,216
Telephone, cable, internet and website	13,502		2,857	1,622	1,877	19,858
	84,135	-	33,824	69,297	43,238	230,494
Common area and equestrian						
Landscape and irrigation	481,604		2,041	2,601	12,464	498,710
Tree trimming	8,400		4,500	1,240	-	14,140
Trail maintenance	233,137					233,137
Common area repairs and maintenance	26,022		102,174	4,593	11,483	144,272
Pool and spa				23,731		23,731
Pest control	12,431		9,203	594	2,460	24,688
Janitorial	40,729		2,284	17,607	7,900	68,520
Emergency preparedness and security	198,505					198,505
Feed and shavings			292,360			292,360
	1,000,828	-	412,562	50,366	34,307	1,498,063
Administrative						
Insurance	63,211		9,782	743		73,736
Accounting	45,496					45,496
Payroll and related expenses	545,264		390,948	25,070	138,717	1,099,999
Administrative expense	74,432		14,487	-	-	88,919
Operating contingency	2,905					2,905
Newsletter expense	57,763					57,763
Legal and professional	48,950			12,068		61,018
Collection costs	9,225					9,225
Social activities	55,856					55,856
Property tax, Licenses and permits	874		400	696		1,970
Income tax expense	12,680					12,680
Capital expenditures	143,037		-	-		143,037
Bad Debt Expense	49,425					49,425
Depreciation expense	10,175		4,531	1,781	9,285	25,772
	1,119,293	-	420,148	40,358	148,002	1,727,801
Major repairs and replacements		700,286				700,286
Total expenses	<u>2,204,256</u>	<u>700,286</u>	<u>866,534</u>	<u>160,021</u>	<u>225,547</u>	<u>4,156,644</u>
Excess(deficit) of revenues over(under) expenses	(10,298)	(188,257)	(52,813)	(4,691)	(46,413)	(302,472)
Beginning fund balances	803,349	3,733,420	348,357	172,737	460,798	5,518,661
Ending fund balances	<u>\$ 793,051</u>	<u>\$ 3,545,163</u>	<u>\$ 295,544</u>	<u>\$ 168,046</u>	<u>\$ 414,385</u>	<u>\$ 5,216,189</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

NELLIE GAIL RANCH OWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2019

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Equestrian Fund</u>	<u>Swim Fund</u>	<u>Tennis Fund</u>	<u>Total</u>
Excess(deficit) of revenues over(under) expenses	\$ (10,298)	\$ (188,257)	\$ (52,813)	\$ (4,691)	\$ (46,413)	\$ (302,472)
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities						
Assessments receivable	(24,487)	-	-	-	-	(24,487)
Allowance for doubtful accounts	47,593	-	-	-	-	47,593
Interest receivable	-	5,704	-	-	-	5,704
Prepaid insurance	(785)	-	(493)	-	-	(1,278)
Deferred expenses	24,000	-	-	-	-	24,000
Depreciation	10,174	-	4,531	1,780	9,285	25,770
Accounts payable	9,984	14,694	2,844	5,509	(244)	32,787
Payroll payable	(5,537)	-	5,487	-	4,017	3,967
Prepaid assessments	(107,518)	-	-	-	-	(107,518)
Paid time off payable	(30,948)	-	23,653	-	6,711	(584)
Income taxes payable	3,669	-	-	-	-	3,669
Deposits	24,750	-	2,820	-	-	27,570
Net cash provided(used) by operating activities	<u>(49,105)</u>	<u>20,398</u>	<u>38,842</u>	<u>7,289</u>	<u>19,769</u>	<u>37,193</u>
Cash provided(used) by investing activities:						
Increase in investments	<u>(444,050)</u>	<u>269,080</u>	<u>(42,800)</u>	<u>(16,050)</u>	<u>(32,100)</u>	<u>(265,920)</u>
Net cash flows from investing activities	<u>(444,050)</u>	<u>269,080</u>	<u>(42,800)</u>	<u>(16,050)</u>	<u>(32,100)</u>	<u>(265,920)</u>
Cash provided(used) by financing activities:						
Interfund borrowings	<u>-</u>	<u>(35,766)</u>	<u>-</u>	<u>-</u>	<u>35,766</u>	<u>-</u>
Net cash flows from financing activities	<u>-</u>	<u>(35,766)</u>	<u>-</u>	<u>-</u>	<u>35,766</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	(503,453)	65,455	(56,771)	(13,452)	(22,978)	(531,199)
Cash and cash equivalents at beginning of year	1,224,526	384,430	283,882	87,861	306,828	2,287,527
Cash and cash equivalents at end of year	<u>\$ 721,073</u>	<u>\$ 449,885</u>	<u>\$ 227,111</u>	<u>\$ 74,409</u>	<u>\$ 283,850</u>	<u>\$ 1,756,328</u>
SUPPLEMENTAL DISCLOSURE						
Income taxes paid						<u>\$ 7,200</u>
Interest paid						<u>\$ -</u>

The accompanying notes are an integral part of the financial statements
(See Independent Auditor's Report)

NELLIE GAIL RANCH OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

1. Organization

Nellie Gail Ranch Owners' Association (the "Association") was incorporated on November 19, 1976 as a mutual benefit corporation under the laws of California, for the purposes of maintaining and preserving common property. The Association consists of 1,407 residential homes and is located in Laguna Hills, California.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Association maintains its financial records on the cash basis of accounting, which recognizes revenues when received and expenses when paid. Adjustments at the end of the fiscal year result in these financial statements being presented on the full accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the board of directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Fund Accounting

The Association uses fund 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. Disbursements from the operating fund are generally at the discretion of the board of directors and property manager. Disbursements from the replacement fund require signatures from the board of directors or officers as specified by California Civil Code, and generally may be made only for designated purposes. The Association maintains additional funds for Equestrian, Swim and Tennis.

Investment Income

The board's policy is to account for interest income in the fund in which it is earned. The Association pays related income taxes from the operating fund.

Property, Equipment and Depreciation Policy

The Association has not capitalized real and personal common area property contributed by the developer. Property and equipment purchased by the association has been recorded at cost, and depreciated using the straight-line method over estimated useful lives ranging from five to thirty years.

Cash and Cash Equivalents

Cash and cash equivalents include the Association's cash, checking accounts, money market funds and investments in certificates of deposit with original maturities of 90 days or less.

Investments

Investments consist of certificates of deposit and other securities and investment accounts with original maturities of more than 90 days.

NELLIE GAIL RANCH OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

Subsequent Events

Subsequent events have been evaluated through January 15, 2020, which is the date the financial statements were available to be issued.

Concentration of Credit Risk

The Association maintains bank accounts with balances that exceed FDIC federal insurance of \$250,000. The financial institution may carry private insurance, which may or may not be sufficient to reimburse for any losses. At September 30, 2019, \$1,016,545 was exposed to risk.

3. Assessments and Assessments Receivable

Association members are subject to quarterly assessments of \$437 to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable represent fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments and fees, including filing of liens on an owner's unit, foreclosing on a unit owner, and obtaining a legal judgment on an owner's other assets. Any excess operating funds are retained at the end of the fiscal year for use in future periods. After the Association has exhausted all efforts to collect delinquent accounts, the Board of Directors may elect to write off uncollectible balances. The Association records an allowance for doubtful accounts to reflect an estimate of accounts that may not be collectible, which includes receivables greater than 90 days old.

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and are generally not available for expenditures for normal operations.

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated June 13, 2019 to estimate the remaining useful lives and the replaces costs of the components of the common property. Replace costs were based on the estimated costs to repair or replace the common property components on the date of the study.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to its governing documents, to increase regular assessments or to levy special assessments, or it may delay major repairs and replacements until funds are available.

5. Income Taxes

The Association has federal tax-exempt status under Internal Revenue Code Section 501(c)(4) and is exempt from federal income taxes on all non-business activities. The Association has not met the criteria to file as a homeowners' association for its California income tax return and is taxed as a regular corporation for state purposes. The Internal Revenue Service and the California Franchise Tax Board can examine the Association's income tax returns generally up to three years and four years, respectively. The Association has not been

NELLIE GAIL RANCH OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2019

examined by taxing authorities. The Association's tax positions have been in place beyond the statutes of limitations; and the Board has considered that the tax positions the Association has taken will be sustained if examined by taxing authorities.

6. Compensated Absence Liability

Employees of the Association are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service, and other factors. The estimated liability for paid time off has been accrued in the amount of \$41,368.

7. Pension Plan

The Association's Simple IRA plan covers employees who have completed at least three months of service. The Association matches 100% of employee contributions up to 3% of compensation. The plan administrator is Assembly Pointe Financial. During the year ended September 30, 2019, the Association contributed \$17,194 to the plan.

8. Tennis, Swim Club and Equestrian Facilities License Agreements

In October 2018, the Association entered into an agreement to lease the tennis courts to provide services and/or conduct activities related to tennis instruction to the Members. The agreement directs all Tennis Club Membership dues to the Association. In addition, the service provider pays the Association a fixed annual fee of \$10,000 for rights to run the Summer Tennis Camp. In September 2019 the agreement was renewed to extend the term through October 31, 2020.

In November 2011, the Association entered into a license agreement with a licensee to provide services and/or conduct activities related to swim program services to the Participant Members. The contract was renewed in October 2018, to extend the term through September 30, 2019. The Service Provider is required to pay a flat monthly usage fee for swim team practice of \$2,550, as well as a monthly amount equivalent to 20% of the swim lesson revenues. The contract was renewed in September 2019 to extend the term through September 30, 2020 and increase the monthly usage fee for swim team practice to \$2,750.

In July 2019, the Association entered into a service agreement with a Service Provider to provide services and/or conduct activities related to swim program services to the Participant Members. The Service Provider is required to pay the Association a monthly amount equivalent to 25% of the Swim Training Program revenues.

The Association entered into a license agreement in September 2015 with a service provider for the use of certain amenities and areas of the Association's equestrian facilities for the purpose of providing equestrian training and instruction. During the year ended September 30, 2019, the service provider paid a monthly fee of \$2,420. In October 2019, the Association agreed to a one-year renewal with monthly fees of \$2,495.

9. Contingent Liabilities and Litigation

The Association has ongoing claims made against it that result from the normal operations of the Association. The Association believes that it has adequate legal defense and insurance to be sufficiently protected from potentially adverse legal consequences.

NELLIE GAIL RANCH OWNERS' ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended September 30, 2019
(Unaudited)

The Association's board of directors, in conjunction with a reserve study expert, conducted a reserve study dated June 13, 2019 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components on the date of the study.

The following information is based on the study and presents significant information about the components of common property.

<u>Study Component - HOA</u>	<u>Estimated remaining useful lives</u>	<u>Estimated current replacement costs</u>
Paved surfaces	0-8	\$ 113,100
Landscape	0-19	264,300
Office components	0-14	116,100
Grounds	0-23	635,500
Dapple grey	2-24	166,750
Gallup park	0-24	161,355
Hidden trail	0-24	79,250
Hundred foot arena	3-7	47,500
Moulton Park	0-24	143,650
Cabot Arena	1-17	99,470
		<u>1,826,975</u>
Study Component - Equine		1,573,795
Study Component - Swim		597,350
Study Component - Tennis		887,800
		<u>\$ 4,885,920</u>
Replacement fund balance at September 30, 2019		<u><u>\$ 3,545,163</u></u>
Other Assumptions:		
Interest rate		<u>1.00%</u>
Inflation rate		<u>3.00%</u>