

**NELLIE GAIL RANCH OWNERS' ASSOCIATION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**



**NELLIE GAIL RANCH OWNERS' ASSOCIATION
FINANCIAL STATEMENTS
For the Year Ended September 30, 2017**

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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, 2017, 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, 2017, 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, Inc

Newman and Associates, Inc.
An Accountancy Corporation
Carlsbad, California
December 11, 2017

NELLIE GAIL RANCH OWNERS' ASSOCIATION
BALANCE SHEET
September 30, 2017

	<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	\$ 1,160,292	\$ 1,238,452	\$ 309,109	\$ 72,851	\$ 313,839	\$ 3,094,543
Investments		2,128,398				2,128,398
Assessments receivable	109,725		22,132			131,857
Allowance for doubtful accounts	(102,515)					(102,515)
Other receivable	11		-			11
Interest receivable		5,606				5,606
Prepaid insurance	42,449					42,449
Prepaid taxes	1,910					1,910
Fixed assets	480,768		742,552	563,578	844,247	2,631,145
Accumulated depreciation	(355,350)		(604,428)	(473,810)	(676,688)	(2,110,276)
Deferred expenses	97,483					97,483
Total Assets	<u>\$ 1,434,773</u>	<u>\$ 3,372,456</u>	<u>\$ 469,365</u>	<u>\$ 162,619</u>	<u>\$ 481,398</u>	<u>\$ 5,920,611</u>
Liabilities						
Accounts payable	\$ 46,797	\$ -	\$ 14,528	\$ 5,184	\$ 3,682	\$ 70,191
Payroll payable	18,265					18,265
Prepaid assessments	158,028					158,028
Paid time off payable	36,932					36,932
Deposits	335,399		56,026			391,425
Total liabilities	<u>595,421</u>	<u>-</u>	<u>70,554</u>	<u>5,184</u>	<u>3,682</u>	<u>674,841</u>
Fund balances	<u>839,352</u>	<u>3,372,456</u>	<u>398,811</u>	<u>157,435</u>	<u>477,716</u>	<u>5,245,770</u>
Total liabilities and fund balances	<u>\$ 1,434,773</u>	<u>\$ 3,372,456</u>	<u>\$ 469,365</u>	<u>\$ 162,619</u>	<u>\$ 481,398</u>	<u>\$ 5,920,611</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, 2017

	Operating Fund	Replacement Fund	Equestrian Fund	Swim Fund	Tennis Fund	Total
Revenues						
Owners' assessments	\$ 1,593,375	\$ 187,202	\$ -	\$ 99,175	\$ -	\$ 1,879,752
Equestrian center income		106,800	674,102			780,902
Swim club income		59,400		19,623		79,023
Tennis club income		78,000			68,525	146,525
Newsletter	82,948					82,948
Cell tower revenue	122,216					122,216
Interest	1,290	22,002				23,292
Maintenance revenue from Association			24,000			24,000
Other member income	445,374		117,267		74,702	637,343
Total revenues	<u>2,245,203</u>	<u>453,404</u>	<u>815,369</u>	<u>118,798</u>	<u>143,227</u>	<u>3,776,001</u>
Expenses						
Utilities						
Electricity and gas	(218)		17,761	56,605	31,873	106,021
Water and sewer	51,700		9,982	4,206	3,635	69,523
Trash removal	15,628			600	600	16,828
Telephone, cable, internet and website	10,436		1,921	2,888	2,933	18,178
	<u>77,546</u>	<u>-</u>	<u>29,664</u>	<u>64,299</u>	<u>39,041</u>	<u>210,550</u>
Common area and equestrian						
Landscape and irrigation	301,056		18,615	2,238	8,946	330,855
Tree trimming	88,365					88,365
Trail maintenance	163,946					163,946
Common area repairs and maintenance	39,807		96,398	9,263	16,176	161,644
Pool and spa				26,436		26,436
Pest control	10,787		7,964	486	1,780	21,017
Janitorial			1,620	12,463	4,442	18,525
Emergency preparedness and security	8,276					8,276
Feed and shavings			264,500			264,500
	<u>612,237</u>	<u>-</u>	<u>389,097</u>	<u>50,886</u>	<u>31,344</u>	<u>1,083,564</u>
Administrative						
Insurance	74,547		9,892	11,918		96,357
Accounting	45,046					45,046
Payroll and related expenses	550,559		325,637	18,059	79,908	974,163
Administrative expense	79,992		13,781			93,773
Operating contingency	203,061					203,061
Newsletter expense	59,265					59,265
Legal and professional	204,695			11,613		216,308
Collection costs	8,057					8,057
Social activities	59,908					59,908
Property tax, Licenses and permits	3,452		400	687		4,539
Income tax expense	8,200					8,200
Bad debt expense (recoveries)	(1,812)					(1,812)
Capital expenditures	-		26,710	-		26,710
Depreciation expense	10,176		4,731	1,780	9,720	26,407
	<u>1,305,146</u>	<u>-</u>	<u>381,151</u>	<u>44,057</u>	<u>89,628</u>	<u>1,819,982</u>
Major repairs and replacements		484,624				484,624
Total expenses	<u>1,994,929</u>	<u>484,624</u>	<u>799,912</u>	<u>159,242</u>	<u>160,013</u>	<u>3,598,720</u>
Excess(deficit) of revenues over(under) expenses	250,274	(31,220)	15,457	(40,444)	(16,786)	177,281
Beginning fund balances	589,078	3,403,676	383,354	197,879	494,502	5,068,489
Ending fund balances	<u>\$ 839,352</u>	<u>\$ 3,372,456</u>	<u>\$ 398,811</u>	<u>\$ 157,435</u>	<u>\$ 477,716</u>	<u>\$ 5,245,770</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, 2017

	<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	\$ 250,274	\$ (31,220)	\$ 15,457	\$ (40,444)	\$ (16,786)	\$ 177,281
Adjustments to reconcile excess(deficit) of revenues over(under) expenses to net cash provided(used) by operating activities						
Assessments receivable	10,809	-	(2,198)	-	-	8,611
Allowance for doubtful accounts	(17,194)	-	-	-	-	(17,194)
Interest receivable	-	(4,037)	-	-	-	(4,037)
Other receivable	(11)	-	2,500	-	-	2,489
Prepaid insurance	6,297	-	-	-	-	6,297
Prepaid taxes	(1,910)	-	-	-	-	(1,910)
Depreciation	10,174	-	4,731	1,781	9,720	26,406
Accounts payable	9,097	-	(7,959)	5,184	3,682	10,004
Payroll payable	8,483	-	(5,437)	-	-	3,046
Prepaid assessments	(35,190)	-	(3,690)	-	-	(38,880)
Paid time off payable	20,664	-	(11,609)	-	-	9,055
Income taxes payable	(2,595)	-	-	-	-	(2,595)
Deposits	(26,400)	-	878	-	-	(25,522)
Net cash provided(used) by operating activities	<u>(17,776)</u>	<u>(4,037)</u>	<u>(22,784)</u>	<u>6,965</u>	<u>13,402</u>	<u>(24,230)</u>
Cash provided(used) by investing activities:						
Increase in investments	-	(603,398)	-	-	-	(603,398)
Net cash flows from investing activities	<u>-</u>	<u>(603,398)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(603,398)</u>
Cash provided(used) by financing activities:						
Net cash flows from financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase(decrease) in cash and cash equivalents	232,498	(638,655)	(7,327)	(33,479)	(3,384)	(450,347)
Cash and cash equivalents at beginning of year	927,794	1,877,107	316,436	106,330	317,223	3,544,890
Cash and cash equivalents at end of year	<u>\$ 1,160,292</u>	<u>\$ 1,238,452</u>	<u>\$ 309,109</u>	<u>\$ 72,851</u>	<u>\$ 313,839</u>	<u>\$ 3,094,543</u>
SUPPLEMENTAL DISCLOSURE						
Income taxes paid						\$ 10,110
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, 2017

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, 2017

Subsequent Events

Subsequent events have been evaluated through December 11, 2017, which is the date the financial statements were available to be issued.

3. Assessments and Assessments Receivable

Association members are subject to quarterly assessments of \$334 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 July 28, 2017 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 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.

NELLIE GAIL RANCH OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2017

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 \$36,932.

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, 2017, the Association contributed \$13,388 to the plan.

8. Tennis, Swim Club and Equestrian Facilities License Agreements

In October 2011, 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 was renewed in September 2017 for the period November 1, 2017 through October 2018. The contract requires the lessee to pay a monthly usage fee ranging from \$11,810 - \$13,810.

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 2014, to extend the term through September 30, 2017. The Licensee is required to pay a flat monthly usage fee for swim team practice of \$1,750, as well as a monthly amount equivalent to 22% of the swim lesson revenues. In October 2014, the Association entered into an agreement with a second licensee for use of the swim facilities, which pays a flat monthly fee of \$2,550 and a usage fee of 20% of swim program revenues.

The Association entered into a license agreement in September, 2015 with a licensee 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, 2017, the licensee paid a monthly fee of \$2,120. In October 2016, the Association renewed the one-year arrangement via a service agreement with Hayden Show Jumping and Riding School (Trainer), with monthly fees totaling \$2,220.

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.

10. Deferred Expenses

Through the year ended September 30, 2017, the Association incurred clubhouse renovation architectural, permitting and other planning costs totaling \$97,483. These costs have been accounted for as work in progress, and will be recognized upon completion of the clubhouse renovation project.

NELLIE GAIL RANCH OWNERS' ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
For the Year Ended September 30, 2017
(Unaudited)

The Association's board of directors, in conjunction with a reserve study expert, conducted a study in 2017 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.

Study Component - HOA	Estimated remaining useful lives	Estimated current replacement costs	Study recommended annual funding requirement	Study recommended fund balance
Asphalt	3-10	\$ 99,500	\$ 9,996	\$ 41,375
Monument	0-10	52,500	2,520	37,100
Volleyball Court	2	9,500	1,020	7,125
Concrete	0	3,100	2,652	3,100
Trail Fencing	0	50,000	42,864	50,000
Irrigation	4-11	71,500	5,112	40,625
Pedestals	15	31,000	1,332	7,750
Vehicles	1	39,500	3,384	35,550
Tractors	14	21,000	900	6,300
Solar Panels	10	41,500	2,376	13,833
Dapple Grey	0-6	160,200	11,520	121,790
Office	0-15	112,600	13,044	89,607
Events Shed	13	6,500	312	1,806
Gallup Park	0-19	156,195	9,000	105,018
Dumpster	1-6	5,175	780	1,825
Hidden Trail	0-4	72,300	5,760	50,586
Hundred Foot Arena	1-5	45,160	2,388	39,579
Moulton Park	0-17	137,700	7,032	115,053
Cabot Arena	0-19	93,450	8,328	41,683
Controller enclosures	3	88,500	3,156	77,435
Trees	0	30,000	25,716	30,000
Trail Engineering	0-1	214,000	25,068	184,750
Park electrical and lighting	0-5	62,000	4,572	57,750
Concert stage	9	21,000	1,800	2,100
Emergency command	5	30,000	2,568	15,000
		1,653,880	193,200	1,176,740
Study Component - Equine		1,713,680	145,200	955,064
Study Component - Swim		585,250	61,200	340,402
Study Component - Tennis		847,420	81,600	573,665
		\$ 4,800,230	\$ 481,200	\$ 3,045,871
Replacement fund balance at September 30, 2017				\$ 3,372,456
Other Assumptions:				
Interest rate				1.00%
Inflation rate				3.00%