

# **HERITAGE RANCH OWNERS ASSOCIATION**

**Auditors' Report  
Financial Statements  
and  
Supplemental Information  
*June 30, 2009***

**SIEBERT BOTKIN HICKEY & ASSOCIATES, LLP**  
*Certified Public Accountants*



***Siebert Botkin Hickey  
& Associates, LLP***

Board of Directors and Members  
**Heritage Ranch Owners Association**  
Paso Robles, CA

**Independent Auditors' Report**

We have audited the accompanying balance sheet of Heritage Ranch Owners Association as of June 30, 2009 and the related statements of revenues and expenses and changes in fund balances, 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 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 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 in the first paragraph above present fairly, in all material respects, the financial position of Heritage Ranch Owners Association as of June 30, 2009 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit. The Supplemental Information included in the accompanying schedule is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

***Siebert Botkin Hickey & Associates, LLP***

September 18, 2009

# Heritage Ranch Owners Association

## Balance Sheet

As of June 30, 2009

With Comparative data as of June 30, 2008

	2009			2008
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<b><u>ASSETS</u></b>				
Cash	\$ 23,164	\$ 777,940	\$ 801,104	495,313
Investments	-	705,000	705,000	695,000
Assessments Receivable, Net of Allowance for Doubtful Accounts of \$91,300	103,423	-	103,423	110,256
Other Receivables	1,127	-	1,127	29,417
Prepaid Expenses	59,435	-	59,435	17,070
Property and Equipment, Net of Accumulated Depreciation of \$775,282	321,475	-	321,475	344,825
Due To/From Other Fund	(2,059)	2,059	-	-
Restricted Assets, for Member Deposits				
Cash	104,300	-	104,300	71,600
Investments	100,000	-	100,000	200,000
Total Assets	<u>\$ 710,865</u>	<u>\$ 1,484,999</u>	<u>\$ 2,195,864</u>	<u>\$ 1,963,481</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	\$ 9,088	\$ -	\$ 9,088	\$ 23,350
Accrued Payroll and Related Expenses	53,154	-	53,154	48,555
Prepaid Assessments	173,376	-	173,376	147,238
Lease Payable	48,995	-	48,995	29,448
Income Taxes Payable	-	-	-	6,323
Deferred Income - Boat Slips	20,000	-	20,000	60,000
Architectural and Other Member Deposits	204,300	-	204,300	271,600
Total Liabilities	<u>508,913</u>	<u>-</u>	<u>508,913</u>	<u>586,514</u>
<b><u>FUND BALANCES</u></b>				
Fund Balance - Unappropriated	201,952	1,484,999	1,686,951	1,376,967
Total Liabilities and Fund Balances	<u>\$ 710,865</u>	<u>\$ 1,484,999</u>	<u>\$ 2,195,864</u>	<u>\$ 1,963,481</u>

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

**Heritage Ranch Owners Association**  
Statement of Revenues and Expenses and Changes in Fund Balances  
For the Year Ended June 30, 2009  
With Comparative Balances for the year ended June 30, 2008

	<b>2009</b>			<b>2008</b>
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total Funds</b>	<b>Total Funds</b>
<b><u>REVENUES</u></b>				
Assessments	\$ 1,313,139	\$ 463,909	\$ 1,777,048	\$ 1,994,968
Interest Income	5,364	25,191	30,555	77,955
Campground and Marina	42,695	-	42,695	63,950
RV Trash Fees	28,944	-	28,944	28,944
Association Fees	21,655	-	21,655	19,641
Road Construction Fees	-	300	300	2,100
Equestrian Center	37,725	-	37,725	35,448
Late Charges	23,679	-	23,679	23,160
Mow/Chip Charges	4,790	-	4,790	4,530
Traffic/AECC Fines	55,697	-	55,697	64,737
Rental Income	40,000	-	40,000	40,000
Other Income	92,348	-	92,348	81,549
Total Revenues	<u>1,666,036</u>	<u>489,400</u>	<u>2,155,436</u>	<u>2,436,982</u>
<b><u>EXPENSES</u></b>				
Administrative Expenses	534,871	-	534,871	531,692
Code Enforcement	548,123	-	548,123	558,435
Repair and Maintenance	429,054	-	429,054	387,992
Campground and Marina	51,658	-	51,658	38,935
Equestrian Center	44,174	-	44,174	32,435
Recreation Center	72,900	-	72,900	71,087
RV Area	30,042	-	30,042	29,219
Income Tax Expenses	633	2,941	3,574	19,573
Major Repairs & Replacements	-	70,299	70,299	572,547
Total Expenses	<u>1,711,455</u>	<u>73,240</u>	<u>1,784,695</u>	<u>2,241,915</u>
Excess (Deficiency) of Revenues Over Expenses before Depreciation	(45,419)	416,160	370,741	195,067
Depreciation	60,757	-	60,757	65,297
Excess (Deficiency) of Revenues Over Expenses	<u>(106,176)</u>	<u>416,160</u>	<u>309,984</u>	<u>129,770</u>
Fund Balance, Beginning of Year	319,569	1,057,398	1,376,967	1,247,197
Fund Transfers	(11,441)	11,441	-	-
Fund Balance, End of Year	<u>\$ 201,952</u>	<u>\$ 1,484,999</u>	<u>\$ 1,686,951</u>	<u>\$ 1,376,967</u>

# Heritage Ranch Owners Association

## Statement of Cash Flows

For the Year Ended June 30, 2009

With Comparative Balances for the year ended June 30, 2008

	2009			2008
	Operating Fund	Replacement Fund	Total Funds	Total Funds
<b><u>Cash Flows From Operating Activities:</u></b>				
Excess (Deficiency) of Revenues Over Expenses	\$ (106,176)	\$ 416,160	\$ 309,984	\$ 129,770
<b><u>Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:</u></b>				
Depreciation	60,757	-	60,757	65,297
<b><u>Change in Assets and Liabilities:</u></b>				
Change in Assessments Receivable	6,833	-	6,833	(29,650)
Change in Other Receivables	28,290	-	28,290	(22,791)
Change in Prepaid Expenses	(42,365)	-	(42,365)	(2,526)
Change in Restricted Assets	67,300	-	67,300	11,117
Change in Accounts Payable	(14,262)	-	(14,262)	2,659
Change in Accrued Payroll and Related Expenses	4,599	-	4,599	13,891
Change in Architectural and Other Member Deposits	(67,300)	-	(67,300)	(11,117)
Change in Income Taxes Payable	(6,323)	-	(6,323)	72
Change in Other Liabilities	-	-	-	(6,479)
Change in Deferred Income - Boat Slips	(40,000)	-	(40,000)	-
Change in Prepaid Assessments	26,138	-	26,138	(12,568)
Total Adjustments	23,667	-	23,667	7,905
Net Cash Provided (Used) By Operations	(82,509)	416,160	333,651	137,675
<b><u>Cash Flows from Investing Activities:</u></b>				
Net Investments Redeemed (Purchased)	-	(10,000)	(10,000)	-
Property and Equipment Purchased	(37,407)	-	(37,407)	(77,552)
Net Cash (Used By) Investing Activities	(37,407)	(10,000)	(47,407)	(77,552)
<b><u>Cash Flows from Financing Activities:</u></b>				
Capital Lease Payments	19,547	-	19,547	(19,641)
Net Borrowing Between Funds	(14,250)	14,250	-	-
Transfers Between Funds - Equipment Capitalized	(11,441)	11,441	-	-
Net Cash Provided (Used) By Financing Activities	(6,144)	25,691	19,547	(19,641)
Net Increase (Decrease) In Cash	(126,060)	431,851	305,791	40,482
Cash, Beginning of Year	149,224	346,089	495,313	454,831
Cash, End of Year	\$ 23,164	\$ 777,940	\$ 801,104	\$ 495,313
<b><u>Supplemental Information:</u></b>				
Cash Paid for Income Taxes	\$ 19,600	\$ -	\$ 19,600	\$ 5,800
Cash Paid for Interest	\$ 2,454	\$ -	\$ 2,454	2,307

See Auditors' Report

The Notes to Financial Statements Are An Integral Part of This Statement

# Heritage Ranch Owners Association

## Notes to Financial Statements

For the Year Ended June 30, 2009

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

#### Organizational Data

Heritage Ranch Owners Association was incorporated January 28, 1972. The Association is responsible for the maintenance and operation of the common areas of a 2,104 lot planned development located in San Luis Obispo County, California.

#### Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

#### Fund Accounting

The Association has segregated its activities into two funds; the operating fund, and the replacement fund. The operating fund accounts for all current operating transactions of the Association. The replacement fund accounts for member capital contributions, which are accumulated in separate bank accounts to provide for the future repair and replacement of the Association's common areas.

#### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, investments with an original maturity of three months or less. The Association maintains bank accounts at financial institutions within the County of San Luis Obispo.

#### Investments

Investments consist of Certificates of Deposit, recorded at amortized cost. Based on the past investing record and the current intentions of Management these securities are classified as "Held to Maturity" for purposes of Statement of Financial Accounting Standards No. 115. These investments mature at dates ranging from December 2009 to June 2013. The cost of these investments held at June 30, 2009, was \$705,000. There are no significant unrealized gains or losses at June 30, 2009.

#### Assessments Receivable

Assessments receivable, as reflected in the financial statements, are from members whose lots are located within the Heritage Ranch development. An allowance for bad debts is included in the financial statements. The Association has the right to levy liens on a member's property to ensure payment of an assessment due the Association.

#### Property, Equipment and Depreciation

Real property common areas acquired by the Association from the developer and major repairs or replacements thereto are not capitalized on the Association financial statements. Although the Association has title to such assets, the assets are not severable or saleable by the board without member approval, nor do they produce significant income. Personal property purchased with Association funds, to which the Association holds title, is capitalized at cost and depreciated over the estimated useful lives of the assets purchased, using the straight-line method of depreciation over 3 to 30 years. Association common areas are restricted to use by Association members, their tenants, and guests. The Association is responsible for the preservation and maintenance of the common areas.

Property and equipment recorded in the financial statements consist of the following:

<u>Description</u>	<u>Amount</u>
Land	\$109,736
Buildings and Improvements	60,518
Equipment	394,170
Boat Slips	290,410
Office Equipment	71,782
Vehicles	170,141
Total Cost of Property	<u>1,096,757</u>
Accumulated Depreciation	<u>(775,282)</u>
Net Property & Equipment	<u>\$ 321,475</u>

Common area assets not recorded in the financial statements include fences, approximately 26 miles of streets, boat launch ramps, campgrounds, and various buildings including the recreation barn, maintenance buildings, and the fish station, and approximately 30 acres of parks, playgrounds, and sports fields.

#### 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates included in the preparation of these financial statements include bad debts, depreciation, and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

# Heritage Ranch Owners Association

## Notes to Financial Statements

For the Year Ended June 30, 2009

### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*(continued):*

#### **Lines of Business**

The Association conducts only one line of business, which is providing management and recreational services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

#### **Deposits**

The Association holds various refundable deposits for construction or rentals. These amounts are held until construction is satisfactorily completed with no damage to Association common areas, or until the rental obligations are completed.

### **NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:**

The Heritage Ranch Owners Association bylaws require a reserve study be prepared every three years. Common industry practices suggest that funds should be accumulated for the replacement of its common areas and for general operations. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

It is the Association's policy to fund its reserves on a monthly basis. The Association annually reviews its reserve funding program. The last review was last performed as part of the budget process for the current year. California Civil Code Section 1365 et seq. mandates certain requirements for disclosure of the reserve funding program by the Association to its members. The Association believes that it has complied in all material respects with these requirements.

Actual expenditures may vary from estimated amounts and variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. The Association updates cost data annually.

Cash balances in amounts equal to the designated capital reserves represent cash restricted for this purpose only.

### **NOTE 3 - LEASE OBLIGATIONS AND INCOME:**

The Association has a long-term financing lease with the Heritage Ranch Community Services District (CSD) to acquire 80 boat slips

from the CSD. Under this lease, the Association will acquire title to the boat slips as soon as the lease provides the CSD with full cost recovery, at which point monies collected as lease income will be used to reserve for their replacement and on-going maintenance expenses.

The lease payable to CSD at June 30, 2009 was \$48,995. The Association paid off the lease to CSD subsequent to year end. The payoff amount was \$49,240, which included \$245 of accrued interest from June 30, 2009 to August 2009.

### **NOTE 4 - INCOME TAXES:**

The Association qualifies as a tax exempt Homeowners Association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance and care of Association property. The net non-exempt income from earned interest is taxed at 30% by the Federal Government, based upon the election to file Form 1120-H.

Alternatively, the Association may be classified as a non-exempt membership organization for both federal and state income tax purposes. In general, the Association is required to classify its taxable income and deductions between member activities, non-member activities, and capital transactions (for capital replacement fund components). The Association is subject to specific rulings and regulations applicable to non-exempt membership organizations.

For federal tax purposes, the Association is taxed on all net income from non-member activities reduced only by losses from non-member activities for which a profit motive exists. Non-member income may not be offset by member losses, and any net member losses may only be carried forward to offset member income of future tax periods. Any net member income not applied to the subsequent tax year is subject to taxation. If this filing option is elected, the Association files Form 1120, with tax rates applicable to Association net taxable income are based on a graduated rate table with rates of 15% to 39%.

For California State income tax purposes, the Association is taxed on all net income from non-member activities reduced only by losses from non-member activities for which a profit motive exists. Non-member income may not be offset by member losses. Any net member income is not subject to taxation. The tax rate for Association net taxable income is 8.84%.

# Heritage Ranch Owners Association

## Notes to Financial Statements

For the Year Ended June 30, 2009

### **NOTE 5 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:**

The Association maintains several bank accounts at various financial institutions. The balances in these accounts may occasionally exceed the federally insured (FDIC) amount of \$250,000. Brokerage accounts are not insured by FDIC, but are privately insured by the SIPC.

### **NOTE 6 – EQUESTRIAN CENTER**

The Association annually allocates any Equestrian Center budget surplus from prior years to be used to support the subsequent year's equestrian operations. The Association budgeted \$35,000 for Equestrian Center expenses during the year. Actual expenses for the current year amounted to \$44,174, resulting in a current year budget deficit of \$9,174. The excess revenue for the Equestrian Center is summarized as follows:

<b>Excess Revenue For Equestrian Center</b>	
Beginning Surplus Balance, July 1, 2008	\$ 11,894
Current Year Budget Deficit	<u>(9,174)</u>
Ending Surplus Balance, June 30, 2009	<u>\$ 2,720</u>

### **NOTE 7 – BUDGETARY PROCESS**

The goal of the Association's budget policy, and State Civil Code is that the Association is not to generate any profits nor any losses. From a practical standpoint, it is impossible to have results of operations every year, resulting in neither profits, nor losses, because the organization must accumulate working capital funds to operate from year to year. Therefore, the Association will have either a profit, or a loss, each and every year. Excess operating profits may be retained in the Operating Fund, or transferred to the Major Repair and Replacement Fund, at the Board's discretion.

**Heritage Ranch Owners Association**  
**Supplemental Information on Replacement Fund Balances**  
For the Year Ended June 30, 2009  
(unaudited)

The board commissioned a study in 2007, which was updated in 2008, to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. Funding has been provided using a pooled calculation with provisions for inflation of 3%, interest earnings of 3.5%, and income tax rate of 20%.

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

<b>Major Component</b>	<b>Remaining Life</b>	<b>Current Replacement Cost</b>	<b>Ending Fund Balance Allocation*</b>	<b>2010 Income Allocation</b>
Contingency	0-20	\$ 35,000	\$ -	\$ -
Doors	12-25	11,450	-	-
Equipment	1-30	653,893	-	-
Fencing	13-30	62,100	-	-
Fixtures	9-15	1,750	-	-
Furniture-Exterior	7-15	22,750	-	-
Furniture-Interior	10-25	19,100	-	-
Gates	6-21	57,000	-	-
Grounds	17-30	20,520	-	-
Lights	4-15	16,625	-	-
Painting	0-7	10,000	-	-
Plumbing & fixtures	15-30	16,095	-	-
Pools	3-15	81,800	-	-
Roads - 1"overlay	20-30	85,023	-	-
Roads - 1-1/2"overlay	0-30	1,092,414	-	-
Roads - 2"overlay	0-30	1,642,516	-	-
Roads - 2-1/2"overlay	9-15	915,446	-	-
Roads - Slurry	0-20	511,568	-	-
Roads - Stripe	5-7	24,653	-	-
Roofs	7-31	20,650	-	-
Signs	9-20	2,900	-	-
Software	2-5	2,125	-	-
Structures	7-35	516,050	-	-
Tennis Court	1-5	56,250	-	-
Wall Floor Covering	0-20	102,100	-	-
<b>Totals</b>		<b>\$ 5,979,778</b>	<b>\$ 1,484,999</b>	<b>\$ 333,070</b>

\*Allocation of audited fund balance not provided in the study