Email: office@hroa.us
Phone: (805) 238-9641
Fax: (805) 238-3430

2130 Heritage Loop Road
Paso Robles, CA 93446
Website: www.hroa.us

October 16, 2025

Dear Member:

The attached Independent Auditors' Report is furnished in compliance with the provisions of the California Civil Code §5305 and our Restated Bylaws, which require an annual summary regarding the financial status of the Association to be provided to owners of lots within Heritage Ranch Owners Association (HROA).

The Association retained the services of Potter & Lasiewicz, CPAs, to perform the annual financial audit for the Fiscal Year ending June 30, 2025. We would like to highlight the following outcomes, discoveries, and statements of the Auditor.

- The Auditor's Report showed HROA's financial documentation and processes are healthy.
- The Auditors stated that HROA's internal financial controls are strong. An additional reporting component was recommended for enhanced transparency of the financial reviews.
- The Auditors stated management supported the process and provided all requested documentation in a timely manner.

In Fiscal Year 2024-2025, there were five (5) separate lease agreements in place; two (2) where HROA is the lessor, and three (3) where HROA is the lessee.

I. The first is twenty (20) years in length for the grazing of approximately three hundred (300) total acres of HROA open space in exchange for fencing. The fencing has been completed, and no other financial obligations or monies are scheduled to be exchanged. The lessee is Las Tablas Ranch, represented by Mike Bonnheim. The lease began August 18, 2006, and expires August 17, 2026.

2. The second lease is one (I) year in length for sheep grazing of HROA open space with no financial obligations or monies exchanged. The lessee is J.B. Jaureguy. The expiration of the lease is June 30, 2026, and includes an option to renew the lease for a one (I) year period.

3. The third lease is for the exclusive use rights of the "Point" property at the HROA Marina. Monterey County Water Resources Agency (MCWRA) owns the "Point" property, and HROA is the lessee. The original lease term expired on April I, 2020, and continues on a month-to-month basis until such time as either party terminates the agreement, or a new agreement is executed.

4. The fourth lease is ten (10) years in length for the exclusive use of the commercial office building located within the Oak Hill Center at 2130 Heritage Loop Road, Paso Robles, California 93446. Oak Hill Center, LLC owns the office building, and HROA is the lessee. The space is used as the HROA Member Services Office. The expiration of the lease is January 2029 and contains an option for three (3) successive extensions of five (5) years each.

5. The fifth lease is five (5) years in length for the exclusive use of a multi-functional color copier located within the Member Services Office. De Lage Landen Financial Services, Inc. holds the lease for the equipment, and HROA is the lessee. The expiration of the lease is June 2029, at which time the association has the option to renew the lease, return the equipment, or purchase the equipment.

The long-term leased boat slips (80-Boat Slips) are from January 1st to December 31st. As of 1/1/25 the monthly rate was increased from $900 to $1,100 per month so the total revenue for 2024-2025 was $80,000.00 (6 months at old rate, 6 months at new rate). The short-term rental boat slips (20-Boat Slips) total revenue for 2024-2025 was $22,775.00.

The Equestrian Center's total revenue for 2024-2025 was $69,050.00. Equestrian Center monthly lease fees increased from $80.00 per month per paddock to $100.00 per month per paddock on July I, 2025.

HROA retained the services of Association Reserves to complete an update report of HROA capital reserve components (equipment, vehicles, roads, facilities, etc.). The Capital Improvement & Maintenance Budget Reserve Study Update "No-Site-visit" Report #37328-5 for the period beginning July 1, 2025, includes summary comment lists, projected cash flows and expenditures, and funding estimates and recommendations. Those funds are collected from a portion of the assessments paid by owners of lots to HROA.

Interest income earned from the Capital Improvement & Maintenance Reserve Fund is retained in the Capital Improvement & Maintenance Reserve Fund and totaled $30,988.00 during the 2024-2025 Fiscal Year.

The HROA Board of Directors continues to provide protection against future potential uncollectible debts by budgeting an Allowance for Doubtful Accounts by analyzing current Bad Debt and calculating based upon a percentage recommended by the Independent Auditors. The Allowance for Doubtful accounts is reviewed annually as part of the independent financial audit and is adjusted depending on the Accounts Receivable balance and forecast of collections against the debts owed. For Fiscal Year 2024-2025, the audit determined the Allowance for Doubtful Accounts to be $70,073.96.

If you would like additional information or further clarification on anything contained in this report, please contact the HROA Member Services Office for assistance at 805-238-9641 or office@hroa us.

Sincerely,
Heritage Ranch Owners Association Board of Directors

Highlights of the 2024-2025 Fiscal Year

- Instituted stronger spending controls and Board oversight
- Hired new fiscally conservative General Manager
- Eliminated two management positions – **saving over $200,000/year**
- Reestablished volunteer Community Engagement Committee
- Contracted out human resource function – **saving over $30,000/year**
- Cancelled costly Spectre Security contract – **saving almost $300,000/year**
- Early completion of common area weed abatement
- 2024 annual board election – **$17,395**
- 2025 E-voting election – **$6,442 (any future election will be at least this much)**
- **REPAIRED RATHER THAN REPLACING GATEWAY SIGNS!!!**
- Repaired rather than replacing 447 and Marina washers and dryers
- Repaired rather than replacing Big Pool solar heater
- Repaired rather than replacing Big Pool pergola
- Reopened Office at lunch

- Generated **516** Compliance violations
- Performed **3,298** Mussel inspections
- Processed **35,524** guests through the Gate
- Completed **3,828** Maintenance work orders
- 2024 season pool attendance **13,039**
- Began process for relocating office out of leased space

For more information
and to signup for the Friday Flyer
follow this link

Note: Eliminated position savings include salary, benefits, and taxes

HERITAGE RANCH OWNERS ASSOCIATION

Auditors' Report
Financial Statements
and
Supplemental Information
June 30, 2025

PORTER & LASIEWICZ, CPAS
CERTIFIED PUBLIC ACCOUNTANTS

Serving the Community Association Industry

Porter & Lasiewicz CPAs
980 Enchanted Way, Suite 104
Simi Valley, California 93065
(805) 433-6022 www.pl.cpa

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

Independent Auditors' Report

Opinion

We have audited the accompanying financial statements of Heritage Ranch Owners Association, a non-profit corporation, which comprise the balance sheet as of June 30, 2025, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Ranch Owners Association as of June 30, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Ranch Owners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Ranch Owners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heritage Ranch Owners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Ranch Owners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 have 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.

Porter & Lasiewicz, CPAs
October 16, 2025
Simi Valley, CA

Heritage Ranch Owners Association

Balance Sheet

As of June 30, 2025

	Operating Fund		Replacement Fund		Total Funds	
ASSETS						
Cash	$	338,199	$	2,403,489	$	2,741,688
Investments		300,000		100,000		400,000
Assessments Receivable Net of Allowance for Credit Losses of $70,074		248,790		-		248,790
Inventory		2,991		-		2,991
Prepaid Insurance		56,741		-		56,741
Prepaid Income Taxes		6,842		-		6,842
Other Prepaid Expenses		5,910		-		5,910
Property and Equipment, Net of Accumulated Depreciation of $1,210,290		227,974		-		227,974
Operating Lease - Right of Use Assets		418,833		-		418,833
Total Assets	$	1,606,280	$	2,503,489	$	4,109,769
LIABILITIES and FUND BALANCES						
Accounts Payable	$	81,754	$	-	$	81,754
Prepaid Assessments		103,325		-		103,325
Accrued Payroll and Related Items		98,102		-		98,102
Architectural, Tenant & Other Member Deposits		174,750		-		174,750
Deferred Income Boat Slips		131,997		-		131,997
Operating Lease Liability		423,855		-		423,855
Financing Lease Liability		16,083		-		16,083
Total Liabilities		1,029,866		-		1,029,866
Fund Balances						
Fund Balances		576,414		2,503,489		3,079,903
Total Liabilities and Fund Balances	$	1,606,280	$	2,503,489	$	4,109,769

Heritage Ranch Owners Association

Statement of Revenues and Expenses and Changes in Fund Balances

For the Year Ended June 30, 2025

	Operating Fund	Replacement Fund	Total Funds
REVENUES			
Assessments	$ 3,785,208	$ -	$ 3,785,208
Special Assessments	-	209,100	209,100
Campground and Marina	84,257	-	84,257
RV Trash Fees	50,652	-	50,652
Association Fees	77,165	-	77,165
Road Construction Fees	-	4,200	4,200
Equestrian Center	69,050	-	69,050
Rental Income	111,378	-	111,378
Mussel Inspection Revenue	66,485	-	66,485
Interest Income	5,472	25,516	30,988
Merchandise Revenue	277	-	277
Other Income	75,069	-	75,069
Total Revenues	4,325,013	238,816	4,563,829
EXPENSES			
Administrative Expenses	707,000	-	707,000
Insurance	139,666	-	139,666
Professional Services	338,417	-	338,417
Repair and Maintenance	615,100	-	615,100
Campground and Marina	75,485	-	75,485
Equestrian Center	75,590	-	75,590
Recreation Center	93,581	-	93,581
Ranch Patrol	139,790	-	139,790
Gatehouse	324,784	-	324,784
IT/Communications	94,320	-	94,320
RV Area	51,478	-	51,478
Mussel Inspections	77,237	-	77,237
Boat Slips	18,896	-	18,896
Income Tax Expenses	2,751	-	2,751
Utilities	181,311	-	181,311
Depreciation	32,951	-	32,951
Credit Losses	51,333	-	51,333
Major Repairs and Replacements	-	744,300	744,300
Total Expenses	3,019,690	744,300	3,763,990
Excess (Deficiency) of Revenues Over Expenses	1,305,323	(505,484)	799,839
Fund Balances, Beginning of Year	234,909	2,045,155	2,280,064
Interfund Transfers	(963,818)	963,818	-
Fund Balances, End of Year	$ 576,414	$ 2,503,489	$ 3,079,903

See Auditors' Report

The Accompanying Notes are an Integral Part of These Financial Statements

Heritage Ranch Owners Association

Statement of Cash Flows

For the Year Ended June 30, 2025

	Operating Fund		Replacement Fund		Total Funds	
Cash Flows From Operating Activities:						
Excess (Deficiency) of Revenues Over Expenses	$	1,305,323	$	(505,484)	$	799,839
Adjustments to Reconcile Net Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:						
Credit Losses		51,333		-		51,333
Depreciation		27,331		-		27,331
Amortization of Finance Lease Right-of-Use Assets		5,620		-		5,620
Change in Assets and Liabilities:						
(Increase) in Assessments Receivable		(185,783)		-		(185,783)
Decrease in Inventory		1,005		-		1,005
(Increase) in Prepaid Insurance		(3,199)		-		(3,199)
(Increase) in Prepaid Income Taxes		(6,842)		-		(6,842)
Decrease in Other Prepaid Expenses		4,839		4,303		9,142
Decrease in Operating Lease - Right of Use Assets		65,939		-		65,939
Increase in Accounts Payable		59,021		-		59,021
Increase in Prepaid Assessments		22,175		-		22,175
(Decrease) in Income Tax Payable		(1,819)		-		(1,819)
Increase in Accrued Payroll and Related Items		7,619		-		7,619
(Decrease) in Architectural, Tenant & Other Member Deposits		(1,900)		-		(1,900)
Increase in Deferred Income Boat Slips		95,997		-		95,997
(Decrease) in Operating Lease Liability		(62,353)		-		(62,353)
Total Adjustments		78,983		4,303		83,286
Cash Provided (Used) By Operations		1,384,306		(501,181)		883,125
Cash Flows from Investing Activities:						
Proceeds from Maturities of Investments		200,000		450,000		650,000
Purchases of Investments		(400,000)		-		(400,000)
Purchase of Equipment		(12,971)		-		(12,971)
Cash Provided (Used) By Investing Activities		(212,971)		450,000		237,029
Cash Flows from Financing Activities:						
Payments on Principal of Finance Lease Liabilities		(3,587)		-		(3,587)
Interfund Borrowings		(1,116,337)		1,116,337		-
Cash Provided (Used) By Financing Activities		(1,119,924)		1,116,337		(3,587)
Net Increase In Cash		51,411		1,065,156		1,116,567
Cash, Beginning of Year		286,788		1,338,333		1,625,121
Cash, End of Year	$	338,199	$	2,403,489	$	2,741,688
Supplemental Information:						
Cash Paid for Income Taxes	$	10,932	$	-	$	10,932
Cash Paid for Interest	$	622	$	-	$	622

See Auditors' Report

The Accompanying Notes are an Integral Part of These Financial Statements

Heritage Ranch Owners Association

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Heritage Ranch Owners Association (the "Association") is a nonprofit, mutual benefit corporation under the Laws of California. The Association's members consist of those persons or entities owning the lots within the development. Heritage Ranch Owners Association was incorporated January 28, 1972. As of June 30, 2025, there were sixteen tracts with 2,091 assessment paying residential lots. The total projected lots when completely built-out is 2,900. The Association is responsible for the maintenance and operation of the common areas of the 2,091-lot planned development located in Paso Robles, San Luis Obispo County, California.

The Association's Board of Directors is comprised of five members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

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's governing documents provide certain guidelines for managing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements of the amenities.

Revenue Recognition

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association has evaluated the impact of FASB ASC 606, Revenue from Contracts with Customers, on its financial statements and has determined that the standard does not apply to transactions with its members related to assessments. Assessment revenue is recognized when earned.

User fees and other revenues received from ancillary operations are recognized as the related performance obligations are satisfied. The performance obligations related to the ancillary activities are satisfied at a point in time and immediately after payment has been received. All revenues are recognized at amounts that are expected to be collected.

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, and investments with original maturities of three months or less.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of $250,000. Funds maintained in brokerage accounts are not federally insured but are privately insured by the SIPC (Securities Investors Protection Corporation).

Investments

The investments held by the Association consist of Certificates of Deposits and the total carrying cost was $400,000 as of June 30, 2025. The Association intends to hold these investments through their maturity dates, which range from July 2025 to February 2029.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Assessments Receivable, Allowance for Credit Losses

Assessments receivable, as of June 30, 2025, totaled $318,864. Assessments receivable at June 30, 2025, are stated at the amounts expected to be collected from outstanding assessments from owners. The Association derives a significant portion of its revenue from assessments that are levied against each lot within the development.

Assessments receivable at June 30, 2025 represent amounts due from members whose property is subject to lien and foreclosure. The Association's collection policy includes, among other things, assessing a late charge and filing a lien and assessing a lien fee on payments not received within the allowable time periods.

The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for credit loss is created when an account's collectability is uncertain. Accounts are written off when the Association is notified that it is a credit loss, such as after bankruptcy or foreclosure proceedings. Receivables are determined to be past due after 90 days and are accounted for by increasing the allowance for credit losses.

A valuation allowance of $70,074 has been made for uncollectible assessments receivable. This valuation allowance is an estimate based on an analysis of historical collection activities, reasonable and supportable forecasts, and current economic conditions.

Balances that are still outstanding after management has used reasonable collection efforts are written off through a debit to the allowance for credit losses and a credit to assessments receivable.

The changes in the valuation allowance during the year are as follows:

	2025
Beginning Balance	$ 18,746
Provision for realization losses	51,333
Write-offs	(5)
Ending Balance	$ 70,074

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 historical cost and depreciated over the estimated useful lives of the assets purchased, using the straight-line method of depreciation.

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.

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.

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

Description	Amount
Lands and Roads	$ 109,736
Buildings and Improvements	53,915
Equipment	652,853
Vehicles	231,760
Boat Slips	390,000
Total Cost	1,438,264
Accumulated Depreciation	(1,210,290)
Net Property & Equipment	$ 227,974

Heritage Ranch Owners Association

Notes to Financial Statements

For the Year Ended June 30, 2025

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Property, Equipment and Depreciation

Depreciation expense for the year ended June 30, 2025 totaled $32,951.

Amount Due Between Funds

Amounts due between the funds consist of lending/borrowing arrangements outstanding at the end of the year are reported as "due to/from other funds."

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.

Prepaid Assessments

Prepaid assessments represents assessment revenues and other fees received during the year ended June 30, 2025 that are applicable to the following year.

Deferred Revenue

Deferred revenue represents annual boat slip lease revenues billed during the year ended June 30, 2025 that are applicable to the following year.

Interest Income

The Association records interest income in the respective fund holding the investments but records related income tax expenses in the operating fund.

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, the disclosure of assets and contingent 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 estimated lease liability, estimated depreciation, estimated credit losses and estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

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.

Leases

The Association determines if an arrangement is a lease or contains a lease at the inception of the contract. The Association's leases generally contain fixed components. Lease liabilities, which represent the Association's obligation to make lease payments arising from the lease, and corresponding right-of-use assets, which represent the Association's right to use an underlying asset for the lease term, are recognized at the commencement date of the lease, which is typically the date the Association obtains possession of the leased premises, based on the present value of fixed future payments over the lease term. The Association utilizes the lease term for which it is reasonably certain to use the underlying asset, including consideration of options to extend or terminate the lease.

The Association has elected to use the risk-free rate of 3.5% as the discount rate in order to calculate the assets and liabilities relevant to all operating leases reported in the financial statements for the year ended June 30, 2025. The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time. The Association has utilized the US Treasury website and used the rate for the government investment that most closely resembles the lease terms provided by the lease contracts.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Leases

As of June 30, 2025, the Association recognized operating lease assets of $418,833 and operating lease liabilities of $423,855 on its balance sheet. The Association also recognized financing lease assets of approximately $15,454 and financing lease liabilities of approximately $16,083 on its balance sheet.

NOTE 2 - REPLACEMENT FUND and RESTRICTED CASH:

The Heritage Ranch Owners Association By-laws 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.

However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, the amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process and funds its reserves monthly. Cash and investment balances accumulated for the designated capital reserves represent cash restricted for this purpose only.

The Association commissioned a reserve study in 2025 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 6.00% to estimate future expenditures.

NOTE 3 – 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 Association's election to file Form 1120-H.

For California State income tax purposes, the Association is taxed on all net income from nonmember activities. Net member income or losses are not subject to taxation. The tax rate for Association net taxable income is 8.84%.

The Association's provision for income taxes for the year ended June 30, 2025, included $6,842 in prepaid tax and an expense of $2,751.

The Association's policy is to record interest expense or penalties related to income taxes in operating expenses. For the year ended June 30, 2025 no interest or penalties were paid or accrued.

Heritage Ranch Owners Association's federal and state tax returns are open for examination for the years 2022, 2023, and 2024.

The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of June 30, 2025, the Association does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Association earns revenues from ancillary services to include campground and marina fees, RV trash assessments, equestrian center fees, boat slip fees and rentals, mussel inspection fees, and food and merchandise sales.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS, (continued):

Revenues related to these activities are generally recognized at a point in time. Revenue generated from the types of contracts listed above totaled $394,059 in the current fiscal year.

These types of contracts tend to be short term (less than one year) in duration. The Association typically satisfies its performance obligations as services are rendered. Services are delivered to customers almost immediately upon payment. Therefore, the Association satisfies its performance obligation at a point in time when in relation to these types of contracts. Payments for services may be received prior to receipt of those services by the members, however, most of these payments are due upon receipt. The services provided by the Association are performed by the property management company or by an outside vendor where the Association acts as an agent.

In estimating a contract's transaction price, the Association considers all the information (historical, current, and forecasted) that is reasonable and available to it and identifies a reasonable number of possible consideration amounts.

The information that the Association uses to determine transaction price is similar to the information that the Association's management uses in establishing the prices of goods and services. The Association allocates the transaction price to each item sold based upon input methods to include resources consumed, labor hours and other costs incurred.

NOTE 5 – GRAZING LEASES:

The Association has two lease agreements for sheep grazing on Heritage Ranch Owners Association open space. The J.B. Jaureguy lease began in 2015 and was renewed through 2024, with the option to extend on a month-to-month basis. The Las Tables Ranch lease began in 2006 and expires in 2026.

There is no income with respect to these lease agreements. However, the Las Tables Ranch lease agreement required the tenant to complete the fencing on the property in exchange for the space for the sole purpose of grazing sheep. The fencing has been completed.

NOTE 6 – DEPOSIT WITH COUNTY of SAN LUIS OBISPO:

The Association has a performance agreement (removal bond) with the County of San Luis Obispo related to the guard houses. Under this agreement the Association has two deposits with the County of San Luis Obispo in the form of two CD's held at Mechanics Bank, and the Association cannot authorize release of the funds. The purpose of the deposits is to guarantee that the guard houses shall be removed from the site or converted to such other use which may be approved by the Planning Commission at the time Gateway Drive and Heritage Loop Road is accepted by the Board of Supervisors into the county-maintained public road system, or upon violation and nullification of the Conditional Use Permit for the guard houses.

The two CDs earned an interest rate of 0.08% as of June 30, 2025. The total amount of the two deposits is $33,125 at year end. The interest on the CDs is payable to the Association annually when the CDs are automatically renewed. The CDs will mature and automatically renew each year. The certificates mature in September 2025.

NOTE 7 – BUDGETARY PROCESS:

The goal of the Association's budget policy, and State Civil Codes, is that the Association may not 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.

NOTE 8 – LEASE COMMITMENTS:

The Association rents twenty-five acres of land from the Monterey County Water Resource Agency which is used for mooring on Association owned boat slips, day beaching, picnicking and overflow parking. The lease expired and the Association is paying $3,695 per month rent on a month-to-month basis. Total rental expense for the year ending June 30, 2025 was $44,344.

The Association has entered into a lease contract for the purpose of Association administration and owner meetings. The lease contract required the association to pay a security deposit in the amount of $3,289. The lease expires on January 31, 2029, and the contract requires monthly payments of $3,289 for the first 5 years and a monthly payment of $3,715 for the last 5 years. Total rent expense including common area maintenance charges of $10,157, as a result of this contract, for the year ended June 30, 2025, was $51,752.

In February 2024, the Association entered into a lease agreement for a copier from Office1. The lease agreement requires that the association pays a monthly payment of $366 for a period of 63 months. This lease qualifies as a financing lease. Total expense as a result of this agreement for the year ended June 30, 2025 was $6,113.

The lease costs for the year then ended June 30, 2025 are as follows:

Base Payment	$	4,392
Variable Lease Cost		1,721
Total Annual Lease Cost	$	6,113

The components of total lease cost for the year ended June 30, 2025 were as follows:

		June 30, 2025
Operating Lease Cost	$	96,096
Finance Lease Cost		
Depreciation of Property		4,215
Interest on Lease Liabilities		622
Total Lease Cost	$	100,933

As of June 30, 2025, assets and liabilities related to the Association's operating and finance leases were as follows:

Assets		
Operating Leases	$	418,833
Finance Leases		15,454
Total Lease Assets	$	434,287
Liabilities		
Operating Leases	$	423,855
Finance Leases		16,083
Total Lease Liabilities	$	439,938

As of June 30, 2025, the Association's lease liabilities mature as follows:

Year:		**Operating Leases**
2026	$	78,169
2027		78,169
2028		78,169
2029		78,169
2030		60,640
Thereafter		99,250
Total Lease Payments		472,566
Less Discount		(48,711)
Present Value of Lease Liabilities	$	423,855

NOTE 8 – LEASE COMMITMENTS, (continued):

Year:	Finance Leases
2026	$ 4,387
2027	4,387
2028	4,387
2029	4,022
Total Lease Payments	17,183
Less Imputed Interest	(1,100)
Present Value of Lease Liabilities	$ 16,083

Other information with respect to the Association's leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 96,096
Financing cash flows from financing leases	4,837
Operating lease assets obtained in exchange for new operating lease liabilities	418,833
Financing lease assets obtained in exchange for new financing lease liabilities	15,454

NOTE 9 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains demand accounts at various banks. At June 30, 2025, the aggregate balance of these accounts exceeds the federally insured limits by $113,679.

Financial instruments that potentially subject the Association to credit risk consist principally of cash and cash equivalents.

NOTE 10 – SPECIAL ASSESSMENT:

In October of 2024, the Association approved a special assessment to replenish their depleted funds held in the replacement fund. The special assessment was due in February 2025 and amounted to $100 per unit. As of June 30, 2025, the total amount of special assessments earned was $209,100.

NOTE 11 – LITIGATION:

The Association is involved periodically in legal proceedings concerning matters arising in connection with the conduct of Association services.

In 2024, a complaint was filed against the Association for premises liability and negligence. The complaint was tendered to the Association's insurance company. As of the date of this report, no further action has been taken regarding this claim.

During the fiscal year ended June 30, 2025, the Association entered into a settlement agreement for $6,000 in reference to a claim alleging various violations of the California Labor Code.

NOTE 12 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through October 16, 2025.

Heritage Ranch Owners Association

Supplemental Information on Replacement Fund Balances

For the Year Ended June 30, 2025

(unaudited)

The Board of Directors commissioned a study in 2025 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 6.00%, interest earnings of 3.25%, and no provision for taxes.

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

Component	Estimated Remaining Useful Lives	Estimated Current Replacement Cost
Common Areas		$ 4,343,750
Heritage Pool		612,950
Equestrian Pool		117,750
Marina/Campground		1,544,550
Recreation Areas		1,649,700
Roads		8,965,000
Primary Roads		3,252,500
Parking Lots		931,050
Maintenance		585,650
Totals		$ 22,002,900
Replacement Fund Balance at June 30, 2025		$ 2,503,489