

FLYING-O RANCH COMMUNITY ASSOCIATION  
(A NONPROFIT MUTUAL BENEFIT CORPORATION)

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FINANCIAL STATEMENTS

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FOR THE YEAR ENDED DECEMBER 31, 2005

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From the Treasurer and Finance Committee  
To the Flying-O Ranch Community Association  
O'Neals, California

We have compiled the accompanying statement of financial position of Flying-O Ranch Community Association (a nonprofit mutual benefit corporation) as of December 31, 2005, and the related statement of revenues, expenses and changes in members' equity and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is in the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

March 30, 2006

**FLYING - O RANCH COMMUNITY ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
December 31, 2005

	<u>Operating Fund Deficit</u>	<u>Replacement Fund</u>	<u>TOTAL</u>
Assets and Liabilities			
Cash	\$ 46,592	-	\$ 46,592
Assessment Receivable	\$ 675	-	\$ 675
Income Tax Receivable	\$ -	-	\$ -
Accounts Payable	\$ (1,004)	-	\$ (1,004)
Prepaid Assessment	\$ (4,275)	-	\$ (4,275)
Interfund Balance	\$ (50,000)	\$ 50,000	\$ -
	<u>(8,012)</u>	<u>50,000</u>	<u>41,988</u>
 Member's Equity (Deficit)	 <u>\$ (8,012)</u>	 <u>\$ 50,000</u>	 <u>\$ 41,988</u>

**FLYING - O RANCH COMMUNITY ASSOCIATION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN MEMBER'S EQUITY(DEFICIT)**  
**December 31, 2005**

	<u>Operating Fund (Deficit)</u>	<u>Replacement Fund</u>	<u>TOTAL</u>
Revenues:			
Regular Assessments	\$ 29,216	559	\$ 29,775
Rental Income	4,760	-	4,760
Special Assessments	-	-	-
Interest Income	624	-	624
	<u>34,600</u>	<u>559</u>	<u>35,159</u>
Expenses:			
Accounting Fees	1,522	-	1,522
Income Tax	1,822	-	1,822
Insurance	9,582	-	9,582
Office Supplies	111	-	111
Repairs & Maintenance	1,904	4,561	6,465
Road Maintenance	7,909	-	7,909
Utilities	3,256	-	3,256
Miscellaneous	343	-	343
	<u>26,448</u>	<u>4,561</u>	<u>31,010</u>
Excess (deficit) of Revenues over Expenses	8,152	(4,002)	4,150
Member's Equity (deficit), Beginning of Year	<u>(16,164)</u>	<u>54,002</u>	<u>37,838</u>
Member's Equity (deficit), End of Year	<u>\$ (8,012)</u>	<u>50,000</u>	<u>\$ 41,988</u>

See treasurer's compilation report

**FLYING - O RANCH COMMUNITY ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**December 31, 2005**

	<b>TOTAL</b>
Cash flows from operating activities:	
Net Income	\$ 4,150
Adjustments to reconcile Net Income to net cash provided by operations:	
1200-Accounts Receivable	\$ 1,074
Increase (decrease) in cash due to changes in operating assets and liabilities:	
	\$ -
Net Cash provided (used) by operating activities	5,224
Net cash provided (used) by financing activities:	\$ -
Net increase in cash	\$ 5,224
Cash, beginning of year	\$ 41,368
Cash, end of year	\$ 46,592

See treasurer's compilation report

FLYING –O RANCH COMMUNITY ASSOCIATION  
NOTES TO COMPILED FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. Nature of organization:

The Flying-O Ranch Community Association is a nonprofit mutual benefit corporation organized for the purpose of operating and maintaining the common areas of the planned unit development known as the Flying-O Ranch located near the city of Coarsegold, California.

Specifically there are two “areas” we operate and maintain. The first area is the Cattle Lease Easement, which consists of all the land except the Home Site on each ranch parcel, and the Roads, which are part of each parcel but are provided to Madera County as an easement on each parcel. These first areas are owned by the individual parcel owners. The second area we operate and maintain is the Common Parcel Improvements, which consists of the Equestrian Facility, the Ranch Managers House, the Clubhouse and the Pond. We maintain these so we can keep an easement granted to us under that condition by the owner of that parcel, the Wyle O’Neals Cattle Ranch, Inc. This is kind of like paying rent, but is not like owning real estate. In both cases we have agreed to “band together” to share the cost of maintenance.

2. Summary of significant accounting policies:

Fund Accounting:

The association’s governing documents provide certain guidelines for conducting 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 purposes in the following funds established according to their nature and purpose:

Operating fund (deficit):

This fund is used to account for financial resources available for the general operations of the association.

Replacement fund:

This fund is used to accumulate financial resources designated for future repairs and replacements.

Member assessments:

Association members are subject to monthly assessments to provide funds for the association’s operating expenses, and major repairs and replacements. Assessment receivable at December 31, 2005 represents fees still due from the parcel owners.

No allowance for doubtful accounts has been set up as all the assessments receivable are currently collectible. All of the outstanding receivable shown is due from one member.

FLYING –O RANCH COMMUNITY ASSOCIATION  
NOTES TO COMPILED FINANCIAL STATEMENTS-CON'T  
DECEMBER 31, 2005

Property and Equipment:

The Association owns some things we are responsible for maintaining, like the powered gates. This is the only significant property of the Association. We're also responsible for maintaining the common roads easement area that passes through most owners' parcels. Finally, the Association is responsible under the terms of the CC&Rs for maintaining the Cattle Ranch Improvements on the parcel owned by Wyle O'Neals Cattle Ranch, Inc., parcel #27. This Real property once owned by the Association has been deeded back to members of the developer's family. Easements have been granted to the Association to use the facilities, provided that the Association pays all related maintenance expenses.

Income taxes:

The association may be taxed either as a homeowner's association or as a regular non-profit corporation. For the year ended December 31, 2005, the association was taxed as a regular non-profit corporation. As such, non-exempt function income, such as interest, cannot be reduced by the excess of exempt function expenses over exempt function income. However, this excess can be carried forward to offset function taxable income in future years. For state tax purposes, the taxable income consists of the excess of non-exempt function income over directly related expenses.

3. Future major repairs and replacements:

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds aggregate approximately \$50,000 at December 31, 2005. It is the Association's policy to allocate any interest and lease income to the operating fund and to allocate a portion of dues to replace monies used during the year from the replacement fund. The Treasurer met with several owners over the course of the year to look into optimizing our Reserves strategy and decided for now to keep the Reserves balance at a fixed amount of approximately \$50,000. This would allow us a healthy buffer for significant events and would fit in with the Association strategy of proactive maintenance to avoid sudden large replacement expenditures.

The Association is funding major repairs and replacements over the estimated useful lives of the various components. The useful lives of the components range from 4 to 30 years. Actual expenditure may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated into the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments until funds are available. The fund will not be charged for any costs under two hundred dollars.



FLYING –O RANCH COMMUNITY ASSOCIATION  
 SUPPLEMENTARY INFORMATION ON FUTURE  
 MAJOR REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2005

The owners have not conducted a study to determine the remaining useful lives of the components of the common area property and estimates of the costs of major repairs and replacements that may required in the future. The estimated useful lives and costs of future repairs and replacements have been based on the original developer’s experience.

The following information is based on the original developer’s estimates of the useful lives of the common area property and the current costs of major repairs and replacements.

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance at <u>December 31, 2005</u>
Component:			
Road maintenance			
Culverts	15-20	37,000	18,687
Common area maintenance			
House roof	5-7	5,000	2,525
Appliances	5-7	5,000	2,525
Air conditioning and heating	5-7	5,000	2,525
House structure	25-30	30,000	15,152
Painting	1-5	1,000	505
Barn structure	25-30	15,000	7,576
Water Well	1-5	<u>1,000</u>	<u>505</u>
		\$ <u>99,000</u>	\$ <u>50,000</u>

The 2004-2005 Board decided to remove Gravel from the list and make gravel replacement an ongoing operating expense, proactively maintaining the roads every year to avoid big catastrophic replacement costs. In 2005-2006 the Treasurer determined to keep an average Replacement Fund balance of \$50,000, assuming we’d save up for one catastrophic replacement or several catastrophic repairs at a time and use special assessments for situations outside this strategy. This helps keep owner dues low and avoids having large amounts of capital tied up waiting for disaster. This strategy is temporary and needs to be either ratified by the Board or rethought and replaced with a better strategy. It certainly needs a better review of Replacement costs and useful life.

**FLYING - O RANCH COMMUNITY ASSOCIATION  
STATEMENT OF OPERATING FUND  
REVENUE AND EXPENSES  
2005 BUDGET AND ACTUAL  
December 31, 2005**

	<b>2005 Budget</b>	<b>2005 Actual</b>	<b>Variance good ~ (bad)</b>
<b>Revenues:</b>			
Regular Assessments	29,700	29,775	75
Rental Income	4,760	4,760	0
Interest	300	624	324
	34,760	35,159	399
<b>Expenses:</b>			
			<b>good ~ (bad)</b>
Accounting Fees	1,800	1,484	316
Insurance	6,600	9,582	(2,982)
Office Supplies	300	96	204
Repairs & Maintenance	2,690	1,904	786
Road Maintenance	8,100	7,909	191
Income Taxes	1,150	1,822	(672)
Miscellaneous	200	381	(181)
Replacements & Improvements	7,800	4,561	3,239
Utilities	3,220	3,256	(36)
Property Taxes	2,100	0	2,100
	33,960	30,994	2,966
Excess (deficit) of operating revenues over operating expenses	800	4,165	3,365

See treasurer's compilation report and notes to compiled financial statements.

**FLYING - O RANCH COMMUNITY ASSOCIATION  
STATEMENT OF OPERATING FUND  
REVENUE AND EXPENSES  
2006 BUDGET**

		<u>Proposed Budget</u>
Revenues:		
Regular Assessments	\$	33,660
Interest Earned		500
Rental Income		<u>4,760</u>
Total Revenues		<u>38,920</u>
Operating Expenses:		
Accounting Fees		1,500
Insurance		11,946
Office Supplies		300
Repairs & Maintenance		2,690
Road Maintenance		8,100
Income Taxes		1,450
Miscellaneous		200
Replacement Fund		7,000
Utilities		<u>5,120</u>
Total Expenses		<u>38,306</u>
Excess (deficit) of operating revenues over operating expenses	\$	<u><u>614</u></u>

See treasurer's compilation report and notes to compiled financial statements.

**FLYING - O RANCH COMMUNITY ASSOCIATION  
STATEMENT OF OPERATING FUND  
REVENUE AND EXPENSES  
2006 BUDGET DETAIL  
December 31, 2005**

<b>Income</b>	<b>2006 Budget</b>	<b>vs. 2005 Budget</b>	<b>vs. 2005 Actual</b>
Monthly Assessments (Dues)	33,660.00	29,700.00	29,775.00
Interest Earned	500.00	300.00	624.00
Pasture Rentals	4,760.00	4,760.00	4,760.00
<b>Total Revenues</b>	<b><u>38,920.00</u></b>	<b><u>34,760.00</u></b>	<b><u>35,159.00</u></b>
 <b>Expenses</b>			
<b>Accounting Fees</b>	<b>1,500.00</b>	<b>1,800.00</b>	<b>1,522.00</b>
<b>Insurance - Association Liability</b>	<b>5,645.00</b>	<b>5,000.00</b>	<b>5,645.00</b>
<b>Insurance on Structures in Common Area</b>	<b>3,937.00</b>	<b>1,600.00</b>	<b>3,937.00</b>
<b>Other Insurance (D&amp;O, Workers Comp for Manager)</b>	<b>2,364.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Office Supplies</b>	<b>300.00</b>	<b>300.00</b>	<b>111.00</b>
<b>Repairs &amp; Maintenance</b>			
Barn	300.00	300.00	300.00
Clubhouse (Includes Supplies,Cleaning @60 a month)	1,190.00	1,190.00	1,107.00
General Ranch Maintenance	500.00	500.00	251.00
Ranch House	300.00	300.00	245.00
Repairs	300.00	300.00	0.00
Other	100.00	100.00	0.00
<b>Total Repairs &amp; Maintenance</b>	<b>2,690.00</b>	<b>2,690.00</b>	<b>1,903.00</b>
<b>Road Maintenance</b>			
Road Grading & Gravel	6,000.00	6,000.00	5,534.00
Truck Fuel - Ranch Mgr	600.00	600.00	600.00
Repairs (Culverts, Erosion, brush....)	1,500.00	1,500.00	1,775.00
<b>Total Road Maintenance</b>	<b>8,100.00</b>	<b>8,100.00</b>	<b>7,909.00</b>
<b>Utilities</b>			
Electricity	600.00	800.00	535.00
Propane	300.00	300.00	220.00
Telephone - Clubhouse	500.00	500.00	450.00
Trash Disposal	3,600.00	1,500.00	1,874.00
Web Site	120.00	120.00	175.00
<b>Total Utilities</b>	<b>5,120.00</b>	<b>3,220.00</b>	<b>3,254.00</b>
<b>Replacements and Improvements</b>	<b>7,000.00</b>	<b>7,800.00</b>	<b>4,561.00</b>
<b>Federal Income Taxes</b>	<b>1,000.00</b>	<b>700.00</b>	<b>1,382.00</b>
<b>State Income Taxes</b>	<b>450.00</b>	<b>450.00</b>	<b>440.00</b>
<b>Property Taxes</b>	<b>0.00</b>	<b>2,100.00</b>	<b>0.00</b>
<b>Miscellaneous Expenses</b>	<b>200.00</b>	<b>200.00</b>	<b>343.00</b>
 <b>Total Expenses</b>	 <b><u>38,306.00</u></b>	 <b><u>33,960.00</u></b>	 <b><u>31,007.00</u></b>
 <b>Excess (deficit) of Operating Revenues over Operating Expenses</b>	 <b>614.00</b>	 <b>800.00</b>	 <b>4,152.00</b>

See treasurer's compilation report and notes to compiled financial statements.

FLYING =O= RANCH COMMUNITY ASSOCIATION  
NARRATIVE DETAIL FOR THE 2006 BUDGET  
APRIL 1, 2006

1. 2006 Budget Detail – Description

Income:

The Flying =O= has income from collected owner assessments, both scheduled and special assessments. With assessments set at \$85/month per owner we have an income of \$1020 per year from each owner. With 33 owners paying we have scheduled assessment income of \$33,660. In addition, we lease the grazing rights for the =O= to an outside cattle company. This year the lease will bring in \$4,760. Finally, while the money above is in the bank, we earn interest on it of about \$500. Overall our income is expected to be \$38,920 for 2006, assuming no special assessments are necessary.

Expense:

We have relatively few kinds of expenses in operating and maintaining the Flying =O=. We pay for repairs and maintenance of the property and the improvements, we pay for utilities, we pay insurance and taxes, we pay the accountant and that's about it.

In 2006 our accounting fees are expected to be a bit lower than they were in 2005. By providing our own reports to the owners we save several hundred dollars. In addition, we've changed accountants, moving to one more of the ranch owners are happy with.

We will have an increase in our Insurance premiums in 2006. In 2005 we were covered under the Wyle's Circle W policy and this year that will not be the case. Liability Insurance protecting the Association, and therefore the owners, from lawsuits associated with accidents on the ranch, cost us \$5,645 for 2006. Our insurance cost to cover damage to the Common Parcel Improvements structures was \$3,937 for 2006. There are two other kinds of insurance we purchase – Directors and Officers Insurance (covering liability for Errors and Omissions) and Workers' Compensation insurance for the Ranch Manager. These cost, together, \$2,364. Thus our total annual cost of insurance is \$11,946.

During the year the Board and their Committee delegates typically use a small amount of office supplies in carrying out their duties. This includes paper, postage and so on. In 2006 it will also included an update for the Ranch's copy of QuickBooks software used by the Treasurer in his or her Flying =O= duties.

This year's Repair & Maintenance budget is based on last year's as our 2005 actual costs were under budget, but only because we deferred several maintenance items into 2006. Those items need to be taken care of in this year. Otherwise, we plan no changes except continued effort to cut costs.

Our Road Maintenance budget will stay the same in 2006 at \$8,100, as our expense in this category for 2005 was very close to budget.

Utilities are a significant expense for us on the Flying =O=, with trash pickup amounting to just over 70% of the \$5,120 total. This amount is up in 2006 as the owners approved a second dumpster at the north exit of the ranch. With two dumpsters our trash pickup costs run between \$300 and \$350 per month, exactly as predicted. Because of repairs and

FLYING =O= RANCH COMMUNITY ASSOCIATION  
NARRATIVE DETAIL FOR THE 2006 BUDGET  
APRIL 1, 2006

improvements made at the Barn and Clubhouse we were able to earn a big rebate from PG&E as a big power saver. Due to this rebate we received a \$323 credit for the Barn meter, \$200 of which is left for use in 2006. This lets us reduce our budget by \$200 as shown. Gas, phone and website make up the balance of the Utilities budget.

Every year something surprising happens and we have to repair something big. Bigger than standard maintenance. We are responsible for repairing or replacing any of the structures for which we maintain and accrue Reserves. In 2005 it was the round pen. We look ahead at what is aging to anticipate big expenses too but we have to allow for some surprises. Comparing against actual expenses from past years we decided to reduce the budget for these repairs slightly in 2006, by \$800.

As a corporation, albeit a non-profit, we still pay taxes on our non-exempt function income. The exempt function is the function of a non-profit corporation that is its purpose and reason for being non-profit. In our case our purpose, and the reason for our non-profit status, is the quiet mutual enjoyment of our community. Non-exempt functions are the ones that aren't specifically part of that, like leasing our land for cattle to earn a little income. That income is taxable, both Federal and State.

After a couple hundred dollars for "miscellaneous", things like renewing state fees and so on, we're left with \$614 more in Income than Expenses.