

R-Ranch POA  
2021 Budget

## Income

Assessment Revenue (1150)	\$ 1,012,000.00
Late Fees	\$ 18,500.00
Collection Revenue	\$ 50,000.00
Prepaid 2021 Assessments	\$ 25,000.00
Kitchen Revenue	\$ -
Notary Services/Office Revenue	\$ 3,000.00
R-Store	\$ 2,000.00
Gun Range	\$ 5,500.00
Lease Revenue	\$ 6,500.00
Special Event Revenue	\$ 2,000.00
A*Frame Revenue	\$ 9,500.00
Utilities Fees	\$ 21,000.00
Transfer Fees	\$ 2,000.00
Campground Fees	\$ 8,900.00
Bunkhouse Fees	\$ -
Guest Passes	\$ 19,000.00
Honey Wagon	\$ 10,500.00
Ice	\$ 10,000.00
Trailer Storage	\$ 25,000.00
Rent Revenue	\$ 4,000.00
Candy	\$ 500.00
Washers & Dryers	\$ 6,500.00
Drinks	\$ 4,000.00
Coffee	\$ -
Interest	\$ 1,000.00
Stables Revenue	\$ 21,000.00
<b>TOTAL INCOME</b>	<b>\$ 1,267,400.00</b>

## Expenses

Kitchen Purchases	\$ -
Ice Expense	\$ 4,000.00
Trailer Expense	\$ 25,000.00
Prepaid 2021 Assessments	\$ 25,000.00
R-Store Expense	\$ 2,000.00
Candy	\$ 1,000.00
Washers & Dryers	\$ 500.00
Soda	\$ 2,500.00
Coffee & Hot Chocolate	\$ 1,000.00
Payroll	\$ 580,500.00
Contract Labor	\$ 10,000.00
Human Resources	\$ 3,600.00
BOD	\$ 2,000.00
Staff Expense	\$ 700.00
Entertainment	\$ 11,700.00
Insurance	\$ 86,100.00
Legal & Professional Fees	\$ 55,500.00
Collections	\$ 15,000.00
Recording Fees	\$ 2,500.00
Copier Lease	\$ 9,000.00
Chevy Equinox	\$ 4,000.00
Staff Training	\$ 600.00
Headquarters Office	\$ 40,300.00
Repairs & Services	\$ 39,000.00
Honey Wagon Repairs	\$ 500.00
Laundry	\$ 200.00
Klamath Supplies	\$ 2,100.00
Cottonwood Supplies	\$ 2,100.00
Bunkhouse Supplies	\$ -
Ranch Supplies	\$ 7,400.00
Fuel - Diesel - Oil	\$ 25,000.00
A-Frame Expense	\$ 1,500.00
Utilities	\$ 171,000.00
Taxes	\$ 39,400.00
Money to Reserve	\$ 20,000.00
Stables	\$ 65,600.00
Gun Range	\$ 8,100.00
Water Projects	\$ 3,000.00
	<b>\$ 1,267,400.00</b>

**R-RANCH PROPERTY OWNERS'  
ASSOCIATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**R-RANCH PROPERTY OWNERS' ASSOCIATION**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Members  
R-Ranch Property Owners' Association

We have reviewed the accompanying financial statements of R-RANCH PROPERTY OWNERS' ASSOCIATION, INC., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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.

### **Accountant's Responsibility**

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### **Required Supplementary Information**

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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.

Comprehensive income for the year ended December 31, 2019, has not been presented. Accounting principles generally accepted in the United States of America require that comprehensive income and its components be presented when financial statements purport to present financial positions, results of operations, and cash flows.

*AGT CPAs & Advisors*

AGT CPAs & Advisors  
Mt. Shasta, CA  
May 25, 2020



**R-RANCH PROPERTY OWNERS' ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2019**

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 277,054	\$ 1,365,701	\$1,642,755
Certificates of deposit	-	600,000	600,000
Investments available for sale	-	710,004	710,004
Shares for sale	899,293	-	899,293
Accounts receivable	41,369	-	41,369
Other assets	28,163	-	28,163
Net property and equipment	132,794	-	132,794
Total assets	<u>\$1,378,673</u>	<u>\$ 2,675,705</u>	<u>\$4,054,378</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Assessments received in advance	\$ 270,045	\$ -	\$ 270,045
Accounts payable	62,754	-	62,754
Deposits	2,047	-	2,047
Notes payable	47,335	-	47,335
Total liabilities	382,181	-	382,181
<b>FUND BALANCE</b>			
Fund Balances	996,492	2,675,705	3,672,197
Total liabilities and fund balance	<u>\$1,378,673</u>	<u>\$ 2,675,705</u>	<u>\$4,054,378</u>

See accompanying notes and accountants' review report.

**R-RANCH PROPERTY OWNERS' ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Regular annual assessments	\$ 1,534,400	\$ -	\$1,534,400
Other member revenues	126,595	22,688	149,283
Interest and dividend income	228	53,383	53,611
Lease income	40,679	-	40,679
Gain on sale of investments	-	62,734	62,734
Insurance proceeds	-	425,297	425,297
	<u>1,701,902</u>	<u>564,102</u>	<u>2,266,004</u>
<b>EXPENSES</b>			
Food purchases and supplies	14,658	-	14,658
Payroll, except stables & member sales	382,858	-	382,858
Payroll taxes	47,293	-	47,293
Workers' compensation insurance	23,234	-	23,234
Contract labor	43,560	-	43,560
Water rights	2,252	-	2,252
Accounting	11,723	-	11,723
Net bad debts	557,160	-	557,160
Business taxes and licenses	8,350	-	8,350
Depreciation	43,027	-	43,027
Member entertainment	10,451	-	10,451
Insurance	77,210	-	77,210
Interest	3,768	-	3,768
Legal	49,833	-	49,833
Repairs, maintenance and supplies	122,631	-	122,631
Real estate and business property taxes	13,064	-	13,064
Net stable expense, including payroll	132,144	-	132,144
Travel	254	-	254
Utilities	165,506	-	165,506
Miscellaneous	41,502	-	41,502
Federal and state income taxes	17,406	-	17,406
Management and collection fees	31,342	-	31,342
Office expense and postage	44,943	-	44,943
Fire expenses	-	400,528	400,528
	<u>1,844,169</u>	<u>400,528</u>	<u>2,244,697</u>
Excess (deficiency) of revenues over expenses	(142,267)	163,574	21,307
Interfund Transfers	<u>(22,020)</u>	<u>22,020</u>	<u>-</u>
Beginning Fund Balances, as originally stated	1,160,779	2,552,873	3,713,652
Prior period adjustment	-	(62,762)	(62,762)
Beginning Fund Balances, restated	<u>1,160,779</u>	<u>2,490,111</u>	<u>3,650,890</u>
Ending Fund Balances	<u>\$ 996,492</u>	<u>\$ 2,675,705</u>	<u>\$3,672,197</u>

See accompanying notes and independent accountants' review report.

**R-RANCH PROPERTY OWNERS' ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess (deficiency) revenues over expenses	\$ (142,267)	\$ 163,574	\$ 21,307
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	43,027	-	43,027
(Increase) decrease in:			
Shares for sale	(43,840)	-	(43,840)
Accounts receivable	177,518	-	177,518
Other assets	24,299	-	24,299
Increase (decrease) in:			
Assessments received in advance	(28,589)	-	(28,589)
Accounts payable	11,739	-	11,739
Deposits	(1,553)	-	(1,553)
Other liabilities	(1,110)	-	(1,110)
Net cash provided (used) by operating activities	39,224	163,574	202,798
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net increase in certificates of deposit and marketable mutual funds	-	(571,342)	(571,342)
Purchase of equipment	(4,800)	-	(4,800)
Net cash provided (used) by investing activities	(4,800)	(571,342)	(576,142)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of principal on notes payable	(19,570)	-	(19,570)
Interfund transfers	(22,020)	22,020	-
Net cash provided (used) by financing activities	(41,590)	22,020	(19,570)
Net increase (decrease) in cash and cash equivalents	(7,166)	(385,748)	(392,914)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	284,220	1,751,449	2,035,669
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 277,054	\$ 1,365,701	\$ 1,642,755
<b>SUPPLEMENTARY DISCLOSURE</b>			
Cash paid for income taxes	\$ 14,056	\$ -	\$ 14,056
Cash paid for interest expense	\$ 3,768	\$ -	\$ 3,768

See accompanying notes  
and independent accountants' review report.



## **NOTE 1 - NATURE OF ORGANIZATION**

R-Ranch Property Owners' Association is incorporated in the State of California for the purposes of owning, operating, and maintaining the common property of R-Ranch Association members. R-Ranch Property Owners' Association consists of 2,500 deeds, which share a 5,119-acre private recreational property, located near Hornbrook, California. The Association began its operations in June 1971.

The Association derives its authority and responsibilities from its Declaration of Covenants, Conditions and Restrictions. The Board of Directors make most policy decisions and oversee daily operations, but major decisions are referred to the general Association membership if required by the governing documents or statute.

**Basis of Accounting:** The accompanying financial statements have been prepared in accordance with generally accepted accounting principles for not-for-profit entities in the United States of America.

**Revenue Recognition:** The Association recognizes revenue using the accrual method of accounting. Fees received for further periods are deferred and amortized to income over the period to which they apply.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **a. Fund accounting**

The Association's governing documents provide certain guidelines for governing 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 - This fund is used to account for financial resources available for the general operation of the Association.

Replacement Fund - This fund is used to accumulate financial reserves designated for future major repairs and replacements.

### **b. Cash and cash equivalents**

For purposes of the statement of cash flows, the Association considers as cash equivalents all highly liquid investments with a maturity at the date of purchase of three months or less.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

d. Member assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent assessments and other fees due from share owners. The Association's Declaration provides for various collection remedies for delinquent assessments including filing of liens on the member's share, foreclosing on the member's share, and obtaining judgment on other assets of the member.

e. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 – DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 25, 2020, the date that the financial statements were available to be issued.

**NOTE 4 - UNINSURED CASH BALANCES**

The Association maintains its cash balances at various commercial banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation, the Securities Investor Protection Corporation, or the National Credit Union Administration up to \$250,000. At December 31, 2019, all of the Association's cash and cash equivalents except for \$150,000, were covered under the above insurances.

**NOTE 5 – CERTIFICATES OF DEPOSIT**

Certificates of deposit totaling \$600,000 at December 31, 2019, are included in the accompanying financial statements. The Certificates bear interest ranging from 1.98% to 2.23% and have maturities ranging from six to nine months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

**NOTE 6 – INVESTMENTS AVAILABLE FOR SALE**

The cost, gross unrealized holding gains (losses), and the fair value of available-for-sale marketable mutual funds as of December 31, 2019 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
Marketable Mutual Funds	\$ 710,004	\$ 732,287	\$ 22,283	\$ -

The Association reports marketable mutual funds on the cost basis.

Dividend income on marketable mutual funds is included in interest and dividend income. Net gains and losses on the sale of marketable mutual funds are computed on the specific identification method, and are recognized at the time of sale. Unrealized holding gains and losses are not reported since the marketable mutual funds are reported on the cost basis.

**NOTE 7 – MEMBER ASSESSMENTS RECEIVABLE**

The Association’s member assessments receivable as of December 31 were as follows:

Share assessments receivable	\$ 3,065,139
Allowance for doubtful accounts	(3,065,139)
Net assessments available	<u>\$ -</u>

Of the December 31, 2019 balance of \$3,065,139, \$3,056,269 is receivable in the Operating Fund, and \$8,870 is receivable in the Replacement Fund.

On December 31, 2019, the Association decided to increase the allowance for doubtful collection for the late fees receivable of \$192,073.

**NOTE 8 – SHARES FOR SALE**

The Association took back deeds from owners that were in good standing for a fee or foreclosed on deeds that were delinquent on their assessments. The goal of the Association is to resell these shares in order to recapture the assessments that were billed to the non-paying owners over the past years and the costs of foreclosure.

**NOTE 9 – NET PROPERTY AND EQUIPMENT**

	<u>2019</u>
Furniture and fixtures	\$ 30,343
Machinery and equipment	200,282
Vehicles	264,369
Mobile homes	45,104
Vending machines	858
Horses	<u>26,930</u>
	567,886
Less accumulated depreciation	<u>(435,092)</u>
Net property and equipment	<u>\$ 132,794</u>

Property and equipment is stated at cost. Depreciation is computed on the straight-line method for financial reporting purposes. The estimated useful lives of the assets range from 3-10 years.

In accordance with industry standards, the Association is not capitalizing the real property of R-Ranch, as all beneficial rights of real estate ownership belong to the members and not to the Association.

Replacements and improvements to the real property are not capitalized for the same reasons described above. They are instead expensed directly to either operating or replacement funds in the period they are incurred.

## NOTE 10 – NOTES PAYABLE

5.95% note payable to Wells Fargo Equipment Finance, payable in monthly installments of \$1,824, including interest, due in December 2020, secured by a Ford F750 truck with a book value of \$50,604. \$ 39,288

4.94% note payable to Ally Auto Finance, payable in monthly installments of \$219, including interest, due in April 2023, secured by a Rav 4 SUV with a book value of \$14,860. 8,047

Total 47,335

Less current maturities (24,100)

\$ 23,235

Long-term debt matures during the years ending December 31:

2020	24,100
2021	19,857
2022	2,513
2023	<u>865</u>
\$	<u>47,335</u>

## NOTE 11 – INCOME TAXES

The Internal Revenue Service granted the Association exempt from income tax status in June 1988 under IRS Code Section 501(c)(7), which recognized the Association as a nonprofit social and recreation club for income tax purposes. The State of California has given the Association similar status under California Revenue and Taxation Code Section 23701g. As such, the Association pays no income tax on member income, but the Association does pay taxes on non-member income such as bank interest, investment income and cell tower rental income.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or the State of California. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2019, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

**NOTE 11 – INCOME TAXES (Continued)**

The Association's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and a period of four years for California taxing authorities.

**NOTE 12 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

Prudent business management practices and case law require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes, which aggregate approximately as \$2,697,988 at December 31, 2019.

**NOTE 13 – OMITTED SUPPLEMENTARY INFORMATION**

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 or placing the basic financial statements in an appropriate operational, economic, or historic context.

**NOTE 14 – UNUSUAL AND INFREQUENT EVENT**

On July 5, 2018, the Klamathon Fire damaged the Association's property and assets. The Association received \$425,297 in insurance proceeds and incurred \$400,528 in fire related expenses during year ending December 31, 2019 and are both recorded as ordinary income and expenses on the Statements of Revenues, Expenses, and Changes in Fund Balances. There is no restriction on how the insurance proceeds are spent, therefore, all of the proceeds have been recognized as revenue in the year received, in accordance with Generally Accepted Accounting Principles.

**NOTE 15 – PRIOR PERIOD ADJUSTMENT**

The Association has a prior period adjustment of \$62,762 as of December 31, 2018. The Association is no longer reporting investments as a component of comprehensive income and therefore must be reported at cost. The prior period adjustment reflects the difference between the Association's Mutual Funds' valued at fair market value and at cost.