



Sonnenberg & Company, CPAs

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Leonard C. Sonnenberg, CPA

R-Ranch Property Owners' Association

Audited Financial Statements

December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

Leonard C. Sonnenberg, CPA

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

Opinion

We have audited the accompanying financial statements of R-Ranch Property Owners' Association (a nonprofit organization), which comprise the statement of assets, liabilities and net assets as of December 31, 2022, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of R-Ranch Property Owners' Association as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance 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 R-Ranch Property 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 the 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 R-Ranch Property 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.

Auditor's Responsibilities 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 R-Ranch Property 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 R-Ranch Property 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



January 8, 2024

Sonnenberg & Company, CPAs

R-Ranch Property Owners' Association
Statement of Assets, Liabilities and Net Assets
December 31, 2022

	<u>Total Funds</u>
Assets	
Cash and Cash Equivalents	\$ 1,905,656
Assessments Receivable	4,170,375
Allowance for Uncollectible Accounts	(3,770,755)
Prepaid Insurance	36,494
Land	1,141,634
Property Improvements	6,686,424
Moile Homes	45,104
Furniture and Fixtures	23,138
Machinery and Equipment	130,506
Vehicles	243,925
Horses	29,750
Less: Accumulated Depreciation	(4,749,609)
Total Assets	\$ <u>5,892,642</u>
Liabilities and Net Assets	
Liabilities	
Accounts Payable	\$ 91,621
Accrued Vacation	6,539
Other Payroll Liabilities	10,259
Deferred Membership Dues	280,485
Other Deferred Income	476,365
Refundable Deposits	8,205
Notes Payable - Vehicles	10,969
Total Liabilities	<u>884,443</u>
Net Assets	
Without Donor Restrictions	<u>5,008,199</u>
Total Net Assets	<u>5,008,199</u>
Total Liabilities and Net Assets	\$ <u>5,892,642</u>

The Accompanying Notes are an Integral Part of the Financial Statements

R-Ranch Property Owners' Association
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2022

	Total Funds
Revenue and Support	
Membership Dues and Assessments	\$ 1,797,672
Share Sales and Transfers	55,567
Program Revenue (Schedule #1)	145,577
Lease Income	18,541
Interest and Dividends	19,537
Realized Loss on Investments	(10,665)
Unrealized Loss on Investments	(23,996)
Other Revenue (Schedule #1)	85,963
Total Revenue and Support	<u>2,088,196</u>
Expenses	
Payroll	534,930
Payroll Taxes	53,896
Workers Compensation	33,651
Advertising	998
Bad Debt	759,739
Bank Charges	21,251
Board of Directors	1,852
Copier Lease	14,122
Depreciation	63,730
Entertainment	10,063
Gun Club Expenses	4,953
Income Tax Expense	10,704
Insurance	325,919
Interest Expense	862
Office Expenses	66,842
Professional Fees	59,567
Property Taxes	26,387
Recording Fees	3,678
Repairs and Maintenance	53,072
Stable Expenses	63,974
Supplies	57,217
Telephone and Internet	27,627
Trailer Storage	4,994
Utilities	125,497
Total Expenses	<u>2,325,525</u>
Change in Net Assets	\$ (237,329)
Beginning Net Assets	<u>5,245,528</u>
Ending Net Assets	<u><u>\$ 5,008,199</u></u>

The Accompanying Notes are an Integral Part of the Financial Statements

R-Ranch Property Owners' Association
Statement of Cash Flows
For the Year Ended December 31, 2022

	<u>Total Funds</u>
Cash Flows from Operating Activities:	
Change in Net Assets	\$ (237,329)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	63,730
Unrealized Loss on Investments	23,996
Change in Operating Assets and Liabilities:	
(Increase) Decrease in Assessments Receivable	(318,295)
(Increase) Decrease in Other Receivables	1,900
(Increase) Decrease in Allowance for Uncollectible Accounts	343,514
(Increase) Decrease in Prepaid Insurance	(21,781)
Increase (Decrease) in Accounts Payable	(3,253)
Increase (Decrease) in Accrued Vacation	2,888
Increase (Decrease) in Other Payroll Liabilities	1,957
Increase (Decrease) in Deferred Membership Dues	(65,425)
Increase (Decrease) in Other Deferred Revenue	35,959
Increase (Decrease) in Refundable Deposits	1,675
Net cash (used) by operating activities	<u>(170,464)</u>
Cash flows from investing activities:	
Payments on Loans Payable	(5,173)
Net cash (used) by financing activities	<u>(5,173)</u>
Cash flows from financing activities:	
Sale of Investments	500,471
Purchase of Property and Equipment	(1,565,159)
Net cash (used) by financing activities	<u>(1,064,688)</u>
Net (decrease) in Cash and Cash Equivalents	(1,240,325)
Cash and Cash Equivalents, Beginning of Period	<u>3,145,981</u>
Cash and Cash Equivalents, End of Period	<u>\$ 1,905,656</u>
Supplemental Disclosure:	
Income taxes paid	<u>\$ 1,809</u>
Supplemental Disclosure:	
Interest paid	<u>\$ 862</u>

The Accompanying Notes are an Integral Part of the Financial Statements

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 1. Organization:

R-Ranch Property Owners' Association (the Ranch) was incorporated on June 24, 1971 as a nonprofit public benefit organization and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for public or charitable purposes.

The purpose of the Ranch is to unite property owners in R-Ranch, parcels of real property located in Siskiyou County, California; to encourage civic improvements in said property and vicinity; to promote community activities and interest in said ranch; to co-operate with other organizations having similar objectives; and to improve and maintain common areas and community facilities within said ranch. The Ranch's primary funding is received through membership dues.

Campground – The Ranch offers two campground locations, the Klamath Campground and the Cottonwood Campground. Each location has electric and non-electric sites available with potable water. Each station available or there is a weekly pumping service available for a small fee. Owners may stay in the campground up to 210 nights per year and have access for day use, 365 days per year.

Stables – The Ranch operates a Stables area where trail rides, arena rides, riding lessons, and other activities are available.

Cabins and Rentals – The Ranch offers three rental homes (River House, A-Frame, and Cottonwood) available to rent from two (2) nights to two (2) weeks. There are also 8 line shacks available free of charge for members for up to two weeks at a time.

Shooting Facility – The Ranch has a shooting facility (gun range) available for target practice or 5 stand and trap shooting for a fee to cover ammo and clay costs.

Note 2. Summary of Significant Accounting Policies:

Basis of Presentation

The Ranch's accounting records are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Essentially, all revenue is recognized when earned and expenses are recognized when incurred.

Use of Estimates

The preparation of financial statement in conformity with accounting principles generally accepted in the United States of America requires management 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 amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 2. Summary of Significant Accounting Policies: (Continued)

Accounting for Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein as classified and reported as Net Assets Without Donor Restrictions. These are net assets which are available for use in general operations and not subject to donor restrictions. These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Cash and Cash Equivalents

The Ranch has defined cash and cash equivalents as cash in banks and highly liquid investments with an original maturity of three months or less.

Investments

Investments consist primarily of assets invested in marketable equity and debt securities. The Ranch accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the Statement of Assets, Liabilities and Net Assets. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Assets, Liabilities and Net Assets.

Prepaid Insurance

The Ranch amortizes insurance expense over the terms of the policies.

Donated Materials and Services

Donated goods and services are recognized as contributions if the goods or services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Ranch. Volunteers provide services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Property and Equipment

Acquisitions of property and equipment of \$500 or more are capitalized. Property and equipment are recorded at cost for purchased assets and at fair market value at the time of donation for donated assets. Maintenance and repair costs are charged to expense as incurred. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis as follows:

Property Improvements	27.5 - 39 years
Mobile Homes	27.5 years
Furniture and Fixtures	5 - 10 years
Machinery and Equipment	5 - 10 years
Vehicles	5 years
Horses	3 years

The purchase value of the land and property improvements is based on the value of the property tax assessment shortly after purchase. Depreciation expense for the year ended December 31, 2022 was \$63,730.

Note 3. Income Tax Status:

The Ranch is a not-for-profit corporation under Internal Revenue Code Section 501(c)(7) and California State Rev. & Tax Code 23701t and is therefore not subject to Federal or California income tax. The Ranch is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, it is subject to income tax on net income that is derived from business activities that are unrelated to the Ranch's exempt purposes.

The Ranch filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS and a California Exempt Organization Business Income Tax Return (Form 109) with the FTB to report unrelated business taxable income from Vending and Merchandise Sales, the Cattle Lease (See Note 10), and the Cell Tower Lease (see Note 11).

The Ranch's income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed; and the Franchise Tax Board, generally for four years after they are filed.

Note 4. Concentration of Credit Risk – Cash and Cash Equivalents:

The Ranch had a combined total of \$1,360,914 in Edward Jones and \$685,632 in Tri Counties Bank as of December 31, 2022. These amounts are in excess of the federally insured limit of \$250,000 per depositor. The Ranch has not experienced any loss in such account and believes it is not exposed to any significant credit risk on its cash balances.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 5. Members Assessments and Receivables:

The annual budget and members' assessments are determined by the Board of Directors or may be approved by the members. The Association retains excess funds for expenses in future years. Annual assessments to members were \$1,056, with \$528 due on January 1, 2022 and \$528 due on June 1, 2022. The Ranch records the assessments as revenue when due, which the Ranch believes is in compliance with FASB ASC 606.

The Ranch's policy is to place liens on the properties of owners whose assessments are in arrears, and pursue other legal remedies if necessary, to collect delinquent assessments. An allowance for uncollectible accounts of \$3,770,755 has been recorded.

Note 6. Concentration of Credit Risk – Revenue:

A substantial amount of the Ranch's revenue is received from membership dues and assessments (approximately 86% of total revenue less unrealized loss on investments) during the year ended December 31, 2022.

Note 7. Investments:

Investments consist primarily of assets invested in marketable equity and debt securities. The Ranch accounts for investments in accordance with FASB ASC 958-320 and subsections. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the Statement of Assets, Liabilities and Net Assets. Fair value of marketable equity and debt securities is based on quoted market prices. The realized and unrealized gain or loss on investments is reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Assets, Liabilities, and Net Assets.

The Ranch's investment policy is to invest all money, beyond those held in checking accounts, in financial instruments considered to be safe. Those financial instruments must provide three key features – safety, yield and liquidity. The Ranch invests in specific investments that meet predetermined analytical criteria to ensure that those investments possess high credit quality and low interest rate sensitivity while maximizing returns.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 7. Investments: (Continued)

The following schedule summarizes the investment return and its classification in the Statement of Revenues, Expenses, and Changes in Net Assets for the year ended December 31, 2022:

	Amount
Interest and Dividends	\$ 19,537
Realized Losses	(10,665)
Unrealized Losses	(23,996)
Net Investment Return	\$ <u>(15,124)</u>

The Ranch sold all its investments during the year ended December 31, 2022.

Note 8. Impairment of Long-Lived Assets:

The Ranch evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. To date, no such write-downs have occurred.

Note 9. Notes Payable:

The Ranch has purchased and financed several vehicles for use in its operations. The Ranch had outstanding loan balances for two vehicles at December 31, 2022. Total principal outstanding at December 31, 2022 was \$10,969. Future minimum principal payments due for years ending ending December 31 are as follows:

Year	RAV 4	Equinox	Total
2023	\$ 863	\$ 2,869	\$ 3,732
2024		3,067	3,067
2025		3,279	3,279
2026		891	891
Total	\$ <u>863</u>	\$ <u>10,106</u>	\$ <u>10,969</u>

Note 10. Cattle Lease:

The Ranch leases approximately 3,000 acres of undeveloped land suitable for pasturing cattle between November 1 and May 15 of each year for 5 years. Terms of the current agreement are \$10,000 per year for 5 years payable in full prior to the start of the lease term, which begins November 1, 2022 and expires May 15, 2027.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 10. Cattle Lease: (Continued)

Cattle Lease Income and Deferred Cattle Lease Income under this lease for the year ended December 31, 2022 is as follows:

	<u>Amount</u>
Current Lease Amount	\$ 50,000
Less: 2022 Lease Income	<u>(3,076)</u>
Deferred Income	<u><u>\$ 46,924</u></u>

Note 11. Cell Tower Lease:

In February 2021 the Ranch entered into a forty (40) year easement agreement with United States Cellular Telephone Network (the Telecom Tenant).

Terms of the agreement grant all rights and interest in the Telecom Tenant Lease for the Term, including the right to renew the Telecom Tenant Lease throughout the Term hereof. With limited exceptions, the Telecom Tenant agrees to assume all of the Ranch's rights and obligations under the Telecom Tenant Lease.

The Telecom Tenant has agreed to pay the Ranch \$450,000 less closing costs of \$11,411 (for a net total of \$438,589) for the term of the lease, which the Ranch will amortize over the lease term of \$10,965 per year until the lease expiration in February 2061. Cell Tower Lease Income and Deferred Cell Tower Lease Income for the year ended December 31, 2022 is as follows:

	<u>Amount</u>
Prior Year Deferred Income	\$ 440,406
Less: 2022 Lease Income	<u>(10,965)</u>
Deferred Income	<u><u>\$ 429,441</u></u>

Note 12. Related Party:

During the year ended December 31, 2022 the Ranch utilized the services of American Asset Recovery which is owned by one of the Ranch's property owners. This company assisted the Ranch in the collection of delinquent membership dues and assessments.

Note 13. Employee Rent:

The Ranch rented a single wide trailer to an employee for \$250 per month during the year ended December 31, 2022. This employee paid the Ranch a total \$1,250 in rent.

The Ranch also received \$3,385 from other employees for electricity charges related to their personal use of the property.

R-Ranch Property Owners' Association
Notes to Financial Statements
December 31, 2022

Note 14. Subsequent Events:

The Ranch has evaluated subsequent events through January 8, 2024, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosures in, the financial statements.

R-Ranch Property Owners' Association

Schedule #1: Program and Other Revenue

For the Year Ended December 31, 2022

	<u>Total</u>
Program Revenue	
Campground Fees	\$ 14,739
Stables	20,739
Cabin and River House Rental	22,230
Line Shack	1,145
Shooting Facility	5,763
Utilities Income	42,414
Storage Fees	38,547
Total Program Revenue	\$ 145,577
Other Revenue	
Late Fees	\$ 24,429
Guest Passes	22,818
Donations	8,443
Vending Revenue	4,365
Merchandise Sales	23,717
Less: Cost of Goods Sold	(11,049)
Miscellaneous	6,183
Employee Rent	4,635
Special Events	2,422
Total Other Revenue	\$ 85,963

See Independent Auditor's Report