

THOMAS J. UBOLDI  
CERTIFIED PUBLIC ACCOUNTANT  
1710 Soscol Ave. Suite 2  
Napa, CA 94559

Telephone (707) 252-9225

Fax (707) 252-2080

November 17, 1994

Board of Directors  
R Ranch at the Lake  
Owners' Association  
1962 Capell Valley Road  
Napa, CA 94558

Dear Board Members:

This letter is in response to a telephone inquiry made by Mr. Hardesty on November 14, 1994, regarding possible future transactions in which the Association would purchase ownership interests from members who are delinquent in paying their assessments and who apparently have no intention of making any payments in the future. It is our understanding that after obtaining title, the Association would then attempt to sell the ownership interests to the general public or to other members for a profit. Mr. Hardesty's inquiries to our office concerned:

1. Whether gains on the sales of ownership interests would be subject to income tax, and
2. The effect of such transactions on the Association's tax-exempt status.

In addition, the subject of authorization required for the Association to purchase and sell the ownership interests was also discussed. Section 2(q) of R Ranch by the Lake Owners' Association Declaration of Covenants, Conditions and Restrictions states that "the Association shall not acquire real property by purchase or lease without first obtaining the written consent therefor from sixty-six and two-thirds percent (66 2/3%) of the members." Mr. Hardesty felt that this provision did not apply to the purchase and sale of ownership interests by the Association. Because the interpretation of the intent of the governing documents is a legal issue, we recommend that the Association consult an attorney about the issue of proper authorization.

In our research as to the taxability of gain realized on the sale of ownership interests, we found conflicting IRS Letter Rulings dealing with similar situations. Although one Tax Court determined that a tax-exempt social club was not subject to tax on its gain from a land sale, we strongly advise the Association to re-

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Owners' Association  
November 17, 1994  
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invest the gross proceeds of any sales into capital improvements and renovations to the common area within three years of the sale. This decision should be documented in the minutes to the applicable Association meeting and incorporated into the budget. If the Association decides not to reinvest the proceeds and if the gain is determined to be "unrelated business taxable income," the gain would be subject to tax at corporate graduated rates of 15 to 39 percent.

As to the effect of such transactions on the Association's tax-exempt status, our findings were again subject to interpretation. The Internal Revenue Service has held that clubs which acquire a substantial portion of their income from the sale of club properties are not exempt. As an example, in one case a club's tax-exempt status was revoked where "nonexempt activity" accounted for 25% of their gross receipts. However, in another case, a club which received 26% of its gross income from nonexempt-function activities did not lose its exempt status because their receipt was considered incidental. The Association should consider whether the time involved with these transactions and the proceeds received could be viewed as being "significant" and "substantial," and whether the activity is "recurring" or "incidental."

I hope we have provided information that will be helpful to you. Please call us if you have additional questions.

Sincerely,



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Certified Public Accountant



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Sincerely,

*Trina Stark, CPA*

FOR THOMAS J. UBOLDI

Thomas J. Uboldi  
Certified Public Accountant

NOV. 7 1994

Sent to ALL Board Members LJ

Dear Jeff Dennis (c/o ROA)

3 November 1994

I am sending this letter to you because you are the only one to acknowledge a previous letter I wrote to the ROA and had to send 3 times, but please share this with all the board members.

I am enclosing the 1995 assessment fees. When I bought my R Ranch Share 5 years ago the assessments were slightly over \$300. Now they have almost doubled to \$588. What I bought in order to have as a needed recreation area for my family is quickly becoming a luxury I can no longer afford. In addition to the exaggerated assessment increases each year, the board adds on additional guest fees, cabin fees, penalty fees. Each time I go to the ranch I am being nicked and dined to death with fees fees fees. Last weekend going to the ranch for 1 night with 3 friends cost me \$40 in fees. This is in addition to paying the 1994 fees. This is more money than I would be charged by any public campground.

The letter which was sent to the owners this week soliciting the 1995 fees blames the 175 non paying owners for the assessment increase. The foreclosures and assessment collections may not happen right away but when they do, the ranch will be collecting a handsome 10% interest on the delayed payment. Will we be reimbursed with interest when this happens? Probably not. Instead of increasing the assessment why not borrow the money at say 8% and repay it later. I resent paying assessments for others.

If the fees on the ranch continue to increase at the current rate I will have no choice but to sell my share or join the ranks of those who can not afford to pay what the ROA considers their fair share.



Eugene Marshack (#1074)  
1262 Big Talk Ct.  
San Jose, CA  
95120

RUTH A. PARKER  
COMPTROLLER  
RANCH OWNERS' ASSN.  
R RANCH AT THE LAKE  
1962 CAPELL VALLEY ROAD  
NAPA, CALIFORNIA 94558

RE: 1995 ASSESSMENTS #1329

DEAR RUTH,

THIS LETTER IS IN REGARD TO OUR 1995 ASSESSMENT STATEMENT WHICH WE RECEIVED THIS DATE, WHEREIN YOU REFLECT A 12% INCREASE IN ASSESSMENTS ATTRIBUTED PRINCIPALLY TO THE FACT THAT SOME 175 OWNERS HAVE NOT PAID ANYTHING TOWARD THEIR 1994 ASSESSMENTS.

THAT WE ARE BEING PENALIZED FOR OTHER OWNERS FAILURE TO PAY THEIR ASSESSMENTS APPEARS A REAL INJUSTICE. WE HAVE ALWAYS PAID OUR ASSESSMENTS ON TIME OR EARLY AS MANY OTHER OWNERS SURELY HAVE. IT REALLY

NOV 4 1994  
copy to  
Harry  
R

COMES AS A SLAP IN THE FACE WHEN THOSE WHO DO COMPLY ARE FORCED TO PAY MORE TO COMPENSATE FOR THOSE WHO DON'T PAY.

AS WE UNDERSTAND THE PROCESS, WHEN AN OWNER DOESN'T PAY THEIR ASSESSMENTS, FORECLOSURE + RECOVERY MEASURES ARE INITIATED. EVENTUALLY THE SHARES ARE RECOVERED BY JEFF DENNIS WHO IN TURN RE SELLS THE SHARES. IN THE INTERIM, IT SHOULD BE JEFF DENNIS WHO SHOULD PAY THE FULL ASSESSMENTS ON ALL THOSE SHARES HE HOLDS THROUGH RE-ACQUISITION.

IT'S DIFFICULT TO UNDERSTAND HOW YOU WOULD ALLOW AS MANY AS 175 OWNERS TO BE IN ARREARS NEARLY ELEVEN (11) MONTHS WITHOUT COMPLETING EVEN ONE FORECLOSURE. SEEMS LIKE SOMEONE ISN'T DOING A VERY GOOD JOB TAKING CARE OF THE OWNERS WHO DO PAY THEIR ASSESSMENTS ON TIME.

WE APPLAUD ALL ATTEMPTS TO CURTAIL EXPENSES BUT THIS EXPENSE SHOULD NOT BE BURNE BY WE OWNERS WHO DO PAY ON TIME.

WE WOULD APPRECIATE YOUR COMMENTS REGARDING THIS ISSUE, AND BURDEN YOU WITH THE FOLLOWING QUESTIONS.



- 1) HOW MANY OWNERS ARE IN ARREARS ON THEIR 1993 ASSESSMENTS?
- 2) OF THOSE OWNERS WHO WERE IN ARREARS ON THEIR 1993 AND PREVIOUS YEAR ASSESSMENTS, HOW MANY SHARES WERE FORECLOSED AND REACQUIRED BY JEFF DENNIS FOR RESALE?
- 3) WHICH LAW FIRM IS HANDLING ALL FORECLOSURES AND WHAT HAS BEEN THEIR AVERAGE TIME TO COMPLETE A FORECLOSURE? WHY IS THE PROCESS SO TIME CONSUMING?

AS YOU KNOW, THE AMOUNT OF ANNUAL ASSESSMENTS HAS NEARLY DOUBLED IN THE PAST FEW YEARS SINCE THE BIG SALES CAMPAIGN WAS COMPLETED AT OUR RANCH AT THE LAKE.

DESPITE THE FACT THAT WE HAVE BEEN IN A DOWNWARD ECONOMICAL SPIRAL, THE ASSESSMENTS STEADILY HAVE RISEN EVERY YEAR WHILE THE SHARE VALUES HAVE STEADILY DECREASED.

MANY OF THE SERVICES AT THE RANCH HAVE BEEN CURTAILED YET WE OWNERS CONTINUE TO PAY MORE AND MORE EACH YEAR.

EVENTUALLY ONE COMES TO THE CONCLUSION THAT RANCH OWNERS ASSOCIATION UNDER THE CONTROL OF JEFF DENNIS HAS CONCLUDED THAT THERE ARE NO LIMITS AS TO HOW MUCH AN OWNER SHOULD PAY OR THAT MOST OWNERS COULDN'T CARE LESS AND WILL CONTINUE TO SEND IN THEIR ASSESSMENTS REGARDLESS WHAT THE SITUATION DICTATES.

PERHAPS THAT ITS OWNERS ELECTED NOT TO PAY THEIR ASSESSMENTS HAS A MESSAGE IN ITSELF.

SINCERELY

LLOYD E VAL POWERS  
683 CREE DRIVE  
SAN JOSE, CA. 95123

**R-Ranch At The Lake R.O.A.**  
1962 Capitol Valley Road  
Napa, CA 94558

11-4-94

HI BARRY -

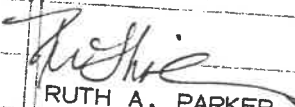
I ORIGNALLY WROTE THIS LETTER TO GIVE YOU  
THE FACTS YOU WOULD NEED TO RESPOND IN A  
WORKABLE FORMAT.

IT MAY NOT COMPLETELY ADDRESS THEIR MORE  
SUBJECTIVE CONCERNS, SUCH AS THEIR FEELING  
THAT THEY ARE BEING PENALIZED BECAUSE OF  
THE OWNERS WHO DON'T PAY, AND WHY SOME  
OWNERS DON'T PAY, ETC.

PLEASE FEEL FREE TO EDIT ANY WAY YOU SEE FIT.

HOPE IT HELPS!

SINCERELY,

  
RUTH A. PARKER  
COMPTROLLER

R-Ranch at the Lake  
Ranch Owners' Association  
1962 Capell Valley Road  
Napa, CA 94558  
Telephone (707) 252-0140  
Fax (707) 252-0143

November 4, 1994

Mr. & Mrs. Lloyd Powers  
683 Cree Drive  
San Jose, CA 95123

Re: Share #1329

Dear Mr. & Mrs. Powers,

Thank you for your recent letter regarding the 1995 assessment and collections.

We can certainly understand your dismay at the increase, and the number of owners whose assessments are delinquent. However, please be aware that our collections department is quite active in collecting delinquent accounts. Our methods have been shown to be very effective, and we are optimistic that our continued efforts will substantially reduce our delinquency ratio.

We would like to clear up one possible misconception. When a share is foreclosed either by the Ranch Owners' Association or by R-Ranch at the Lake, Ltd. (the developer), the developer DOES pay the assessments from the date he takes title to the share.

In response to your questions:

1. This year, 147 owners are in arrears on their 1993 assessments. Our collections department is actively working these accounts.
2. This year, the developer has foreclosed on 12 shares which were delinquent on their 1993 and prior assessments. In addition, the Ranch Owners' Association has foreclosed THIS YEAR on 8 shares which owed for 1993 or prior. These are in process of being repurchased by the developer.

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3. Our foreclosures were handled by Am-Cal Services in Milpitas. At present we are interviewing several other companies to keep costs down and facilitate processing.

The foreclosure process is time-consuming because of the specified periods of time which must elapse between the required steps. These lapses are important also because of the cost of filing legal documents and charges by the foreclosure company. For example, the owner is given 15 to 30 days to pay or otherwise respond to the demand for payment prior to filing a lien on the share. There are several similar steps, with delays of between one month and ninety days, given for the owner to respond and pay the balance outstanding to cancel the foreclosure.

The Board approves an annual assessment which in their best estimate, will adequately provide for the maintenance and operation of the Ranch in the coming year. Each year, our costs (such as property taxes, utilities, and feed, just to name a few) increase. Management does their best to streamline operations in order to keep operating expense down. Any change in services provided has been made at times when it will affect the fewest possible owners.

Be assured that the Board is acting in your best interests, and has dedicated countless hours to the preparation of the coming year's budget and the approval of the assessment amount.

We hope that the foregoing adequately answers your questions. Please feel free to direct any additional concerns which you may have to the Board in care of the R.O.A. office.

Sincerely,

R-Ranch at the Lake Ranch Owners' Association  
Board of Directors  
by Barry Bremner  
President