

DC RANCH COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

DC RANCH COMMUNITY COUNCIL, INC.

Opinion

We have audited the accompanying financial statements of DC Ranch Community Council, Inc., which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses, and changes in fund balance 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 DC Ranch Community Council, Inc. as of December 31, 2020, and the results of its operations 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 DC Ranch Community Council, Inc. 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 DC Ranch Community Council, Inc.'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, including omissions, 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 DC Ranch Community Council, Inc.'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 DC Ranch Community Council, Inc.'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 Summarized Comparative Information

A predecessor auditor has previously audited DC Ranch Community Council, Inc.'s 2019 financial statements, and they expressed an unmodified audit opinion on those audited financial statements in their report dated April 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Monaperger Patterson & McMullin, PLLC

Tempe, Arizona

June 4, 2021

DC RANCH COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2019)

	<u>2020</u>				<u>2019</u>
	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>	<u>TOTAL</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,592,137	\$ 1,739,724	\$ 2,624,718	\$ 5,956,579	\$ 4,558,458
Accounts and other receivables, net	145,378		-	145,378	27,984
Due from related parties	159,847	-	-	159,847	57,454
Prepaid expenses and other assets	31,860	-	-	31,860	17,599
Property and equipment, net	-	-	252,524	252,524	206,274
Interfund balances	(10,000)	69,839	(59,839)	-	-
TOTAL ASSETS	<u>1,919,222</u>	<u>1,809,563</u>	<u>2,817,403</u>	<u>6,546,188</u>	<u>4,867,769</u>
LIABILITIES AND FUND BALANCES					
<u>LIABILITIES</u>					
Accounts payable	43,154	-	9,294	52,448	80,061
Accrued expenses	138,964	-	-	138,964	90,938
Due to related parties	8,264	-	-	8,264	9,753
Deferred revenue	-	-	-	-	11,425
Prepaid assessments	71,573	-	-	71,573	69,103
	<u>261,955</u>	<u>-</u>	<u>9,294</u>	<u>271,249</u>	<u>261,280</u>
FUND BALANCES	<u>1,657,267</u>	<u>1,809,563</u>	<u>2,808,109</u>	<u>6,274,939</u>	<u>4,606,489</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,919,222</u>	<u>\$ 1,809,563</u>	<u>\$ 2,817,403</u>	<u>\$ 6,546,188</u>	<u>\$ 4,867,769</u>

The Accompanying Notes are an Integral Part
of These Financial Statements.

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	<u>2020</u>				<u>2019</u>
	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>	<u>TOTAL</u>
REVENUES					
Community assessments	\$ 1,237,388	\$ 448,400	\$ -	\$ 1,685,788	\$ 1,566,884
Commercial assessments	605,280	-	-	605,280	570,360
Community benefit fees	1,310,474	-	1,387,600	2,698,074	1,973,958
Event, club, and class registrations	24,049	-	-	24,049	59,042
Charitable events	3,940	-	-	3,940	105,230
Arts and education	7,269	-	-	7,269	24,659
Community center rental	10,438	-	-	10,438	44,510
Community garden	10,560	-	-	10,560	9,680
Management fee	190,233	-	-	190,233	86,847
Advertising income	8,280	-	-	8,280	7,380
Interest income	7,473	6,937	6,546	20,956	48,110
Other fees and income	18,664	-	-	18,664	20,997
	<u>3,434,048</u>	<u>455,337</u>	<u>1,394,146</u>	<u>5,283,531</u>	<u>4,517,657</u>
EXPENSES					
Personnel expenses	2,158,015	-	-	2,158,015	1,792,152
Administrative	438,042	-	-	438,042	353,775
Employee relations and training	38,699	-	-	38,699	50,801
Events, clubs, classes	188,735	-	-	188,735	280,918
Charitable events	9,665	-	-	9,665	110,005
Communications and community engagement	71,634	-	-	71,634	90,760
Arts and education	19,810	-	-	19,810	57,652
Desert Camp Community Center	233,549	-	-	233,549	269,304
The Homestead Community Center	111,680	-	-	111,680	117,009
Major repairs and replacements	-	115,353	84,117	199,470	413,604
Seasonal decorations	62,266	-	-	62,266	63,017
Market Street Park/paths and trails	21,235	-	-	21,235	17,709
Depreciation expense	-	-	35,456	35,456	45,271
Insurance and taxes	25,297	-	-	25,297	21,435
Management fee	-	-	-	-	295,691
Other expense	1,528	-	-	1,528	-
	<u>3,380,155</u>	<u>115,353</u>	<u>119,573</u>	<u>3,615,081</u>	<u>3,979,103</u>
EXCESS OF REVENUES OVER EXPENSES	53,893	339,984	1,274,573	1,668,450	538,554
FUND BALANCES, BEGINNING OF YEAR	<u>1,603,374</u>	<u>1,469,579</u>	<u>1,533,536</u>	<u>4,606,489</u>	<u>4,067,935</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,657,267</u>	<u>\$ 1,809,563</u>	<u>\$ 2,808,109</u>	<u>\$ 6,274,939</u>	<u>\$ 4,606,489</u>

The Accompanying Notes are an Integral Part
of These Financial Statements.

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2019)

	2020				2019
	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:					
Excess of revenues over expenses	\$ 53,893	\$ 339,984	\$ 1,274,573	\$ 1,668,450	\$ 538,554
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:					
Bad debt expense net of recoveries	-	-	-	-	(441)
Depreciation	-	-	35,456	35,456	45,271
(Increase) decrease in:					
Accounts receivable	(117,394)	-	-	(117,394)	12,900
Prepaid expenses	(14,261)	-	-	(14,261)	9,676
Builder/developer receivable	-	-	-	-	282
Due from related party	(102,393)	-	-	(102,393)	45,433
Increase (decrease) in:					
Accounts payable and accrued expenses	(36,907)	-	9,294	(27,613)	10,792
Accrued expenses	48,026	-	-	48,026	4,459
Due to related party	(1,489)	-	-	(1,489)	9,753
Deferred revenue	(11,425)	-	-	(11,425)	3,665
Prepaid assessments	2,470	-	-	2,470	6,447
	(233,373)	-	44,750	(188,623)	148,237
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(179,480)	339,984	1,319,323	1,479,827	686,791
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash paid for property and equipment	-	-	(81,706)	(81,706)	(7,029)
Net (purchases) redemptions of investments	-	-	-	-	1,716,353
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	-	-	(81,706)	(81,706)	1,709,324
CASH FLOWS FROM FINANCING ACTIVITIES					
Interfund transfers	10,000	(69,839)	59,839	-	-
NET INCREASE (DECREASE) IN CASH	(169,480)	270,145	1,297,456	1,398,121	2,396,115
CASH, BEGINNING OF YEAR	1,761,617	1,469,579	1,327,262	4,558,458	2,162,343
CASH, END OF YEAR	\$ 1,592,137	\$ 1,739,724	\$ 2,624,718	\$ 5,956,579	\$ 4,558,458
SUPPLEMENTARY CASH FLOW INFORMATION					
Cash used to pay income taxes	\$ 512	\$ -	\$ -	\$ 512	\$ 50

The Accompanying Notes are an Integral Part
of These Financial Statements.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

DC Ranch Community Council, Inc. (the Council), a nonprofit corporation located in Scottsdale, Arizona, was incorporated on March 15, 1996, under the general non-profit laws of the State of Arizona. The Council was incorporated to provide for the management, maintenance and preservation of the common areas and other property owned by the Council or property placed under its jurisdiction and for the furtherance and promotion of the social welfare of the DC Ranch community. The Council is self-managed.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Basis of Presentation

The Council'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 Council 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 operations of the Council.

Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. Monies from this fund are not generally available for operating purposes.

Capital Fund – This fund is used to account for the purchase of new equipment, construction of new amenities, and the upgrade of existing assets.

Cash and Cash Equivalents

The Council considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturity dates of three months, or less, as cash and cash equivalents.

Investments

Certificates of deposit and financial instruments, with original maturities greater than three months and that mature in less than one year, are classified as short-term investments. Investments with maturity dates exceeding one year are classified as long-term investments.

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Interest Income

Interest income is generally allocated to each fund based on actual earnings from depository accounts maintained separately for each fund.

Assessments Receivable

Council property owners are subject to annual assessments to provide for the Council's operating expenses and future repairs and improvements. Assessments receivable, as of December 31, 2020 and 2019, represent assessments due and other fees levied by the Council.

The Council's policies provide that assessments are due by the first day of each month. Finance charges of \$15 per month are added to all accounts deemed to be delinquent by 30 days. The Council seeks legal counsel and places liens on properties owned by property owners whose assessments are delinquent after 90 days past due. Assessments not disbursed at year-end are retained by the Council for use in future years. The Council uses the allowance method to account for doubtful receivables. Receivables are reviewed regularly and the Council records an allowance for doubtful accounts when management determines that a receivable may be uncollectible. The Council could incur losses, up to the full amount of the receivables, even though assessments are a personal obligation of the member at the time of the assessment and may be secured by real property.

Income Taxes

The Council has received from the Internal Revenue Service an exemption from federal income taxes under Section 501(c)(4) of the Internal Revenue Code for exempt function income earned. A provision is made in the financial statements for income taxes on unrelated trade or business income earned, when required. The state tax rate that is applied to net taxable income is 5.5%. The Council had a federal and state tax liability of \$50 and \$512, respectively, for the years ended December 31, 2020 and 2019.

The Council accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Council recognizes tax positions only to the extent that Management believes it is "more likely than not" that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax position for the years ending December 31, 2020 and 2019.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Property and Equipment

The Council capitalizes all common real property to which it has title or other evidence of ownership and either: (1) can dispose of the property, at the discretion of its Board of Directors, for cash or claims to cash and it can retain the proceeds, or (2) the property is used to generate significant cash flows from property owners or non-property owners on the basis of usage. The Council capitalizes all personal property expenditures with a cost basis of \$5,000 or more and an estimated useful life equal to or greater than three years. Purchased property and equipment is recorded at cost and depreciated utilizing the straight-line method over the estimated useful lives of the property, generally five to seven years. Replacements, major repairs and purchases of additional commonly owned real estate are accounted for as expenses in the year of expenditure. It is the responsibility of the Council to preserve and maintain the common property.

The Council reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss is recorded at December 31, 2020 and 2019.

Property not capitalized consists of certain land areas and common real property contributed by the developer at various stages of the project, at no cost to the Council, and, as such, is not reflected in the financial statements. The contributed common areas consist of paths, paved sidewalks, and a park which can never be subdivided.

Prepaid Assessments

The annual budget and assessments are approved by the Board of Directors. The Council receives assessments from homeowners to provide funds for operating expenses, future capital acquisitions and major repairs and replacements. Payments received by the Council prior to the assessment due date are properly not recognized as revenue and are presented as Prepaid Assessments until the corresponding assessment is made by the Council.

Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with property owners are satisfied. Generally, this satisfaction of performance obligations and transfer of controls occurs, and revenues are recognized, as services are provided to property owners. The amounts charged, and the amount of consideration the Council receives in exchange for its services provided, are established and approved by the Board of Directors. The Council recognizes revenue through the following steps: identifying the contract with the member; identifying the performance obligations in the contract; determining the transaction prices; allocating the transaction price to the performance obligation; and recognizing revenue when or as each performance obligation is satisfied.

Subsequent Event

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. The Council recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Council did not encounter any subsequent events that required recognition or disclosure in the financial statements.

Management has evaluated subsequent events through June 4, 2021, the date the financial statements were available to be issued.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Assessments receivable	\$ 38,323	\$ 6,070
Benefit fees receivable	108,706	15,800
Other receivables	1,234	7,468
Less: Allowance for doubtful accounts	<u>(2,885)</u>	<u>(1,354)</u>
Assessments receivable, net	<u>\$ 145,378</u>	<u>\$ 27,984</u>

For the year ended December 31, 2020 and 2019, the Council had net bad debt expense/(recoveries) of (\$2,033) and (\$441), respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 3 – REVENUE RECOGNITION

Residential and Commercial Assessments

The Council’s primary revenue source is generated through the levy of dues and assessments from property owners. The use of operational assessments is on maintenance and management of the common area property. The funding of operational assessments allows the Council to provide services to property owners. The Council’s assessments are based on the Council’s cost of service and are approved by the Council’s Board of Directors. The Council’s obligation to provide services to property owners generally represents a single performance obligation representing a series of distinct services that are substantially the same and have the same pattern of transfer to the member that is satisfied over time as property owners simultaneously receive and consume the benefits provided. The Council applies the inputs method based on resources consumed and labor hours incurred to measure its progress towards satisfactorily completing its performance obligations to transfer each distinct delivery of services to the property owners. Services provided are non-refundable and there are no return obligations. No significant remaining performance obligations exist as of December 31, 2020 and 2019. There is no variable pricing associated with services provided.

Community Council Benefit Fees

Community Council benefit fees are collected from the sale of residential and commercial property within the DC Ranch community based on a percentage of the gross sales price of the property. The percentage charged for residential and commercial property resales is ½ of 1%. During the years ended December 31, 2020 and 2019, the Council recorded \$2,698,074 and \$1,973,958, respectively, in community council benefit fee revenue, which represents approximately 52% and 44% of total revenue recorded, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Computers & Equipment	\$ 107,743	\$ 191,471
Furniture & Fixtures	28,459	165,919
Leasehold Improvements	393,509	357,186
Construction in Progress	7,562	-
Subtotal	<u>537,273</u>	<u>714,576</u>
Less: Accumulated Depreciation	<u>284,749</u>	<u>508,302</u>
Net Property and Equipment	<u>\$ 252,524</u>	<u>\$ 206,274</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$35,456 and \$45,271, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 5 – OPERATING LEASES

The Council leases various equipment and office space under operating lease agreements that expire at various dates through 2022. The office space is leased by the Council, who sub-leases to the DC Ranch Association and The Covenant Commission (see Note 7). The total cost of the office lease for the years ended December 31, 2020 and 2019, was approximately \$198,000 and \$144,000, respectively.

The minimum future lease payments under operating leases at December 31, 2020 are as follows:

Years ended December 31,		
2021	\$	123,427
2022		123,520
2023		122,033
2024		93,474
2025		-
Thereafter		-
	\$	<u>462,454</u>

The total Council portion of the equipment expenses under operating leases was approximately \$44,000 and \$48,000, respectively, for the years ended December 31, 2020 and 2019.

NOTE 6 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Council to concentration of credit risk consist principally of cash and accounts receivable. The Council maintains cash balances at financial institutions. Accounts in the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various time, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the FDIC. As of December 31, 2020 and 2019, the Council had approximately \$1,153,000 in deposits in excess of FDIC coverage.

Concentrations of credit risk with respect to accounts receivables are limited due to the large number of property owners comprising the Council’s member base and the Council’s ability to place liens on member lots. As of December 31, 2020 and 2019, the Council had no significant concentration of credit risk.

NOTE 7 – RELATED PARTY TRANSACTIONS

DC Ranch Community Council, Inc. (the “Council”), DC Ranch Association (the “Association”) and the Covenant Commission comprise the principle components of the property known as DC Ranch. During the course of a year, through a cost sharing agreement, the related parties share various business expenses, such as office space and payroll. Under the current cost sharing agreement, the Council pays the Association and Covenant Commission pays the Council a monthly expense reimbursement fee approved by the Directors. The actual costs for each entity are reviewed at year end and the expense reimbursement fees are adjusted based on the actual expenses incurred during the year.

The office space is leased by the DC Ranch Community Council and sub-leased to the DC Ranch Association and The Covenant Commission. The cost sharing agreement states that each party shall share based on allocated space in the monthly lease agreement.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 7 – RELATED PARTY TRANSACTIONS, (CONTINUED)

The largest shared expense relates to the payroll and benefits of employees shared between the Council and the Association. The Council and the Association use their own payroll providers to pay their employees, then allocate the costs appropriately based on the cost sharing agreement. For the years ended December 31, 2020 and 2019, the Council allocated approximately \$275,000 and \$255,000, respectively, of payroll costs to the Association, and the Association allocated approximately \$182,000 and \$540,000, respectively, of payroll costs to the Council.

The Association also assumes the collection responsibility of the Council's assessments. As a result, the Association acted as an agent between the Council, the homeowners and builders paying assessments. The funds collected by the Association are subsequently transferred to the Council each month.

Related party receivables consisted of the following at December 31, 2020 and 2019:

	2020	2019
Due from DC Ranch Association	\$ 153,637	\$ 57,454
Due from Covenant Commission	6,210	-
	\$ 159,847	\$ 57,454

Related party payables consisted of the following at December 31, 2020 and 2019:

	2020	2019
Due to DC Ranch Association	\$ 8,264	\$ -
Due to Covenant Commission	-	9,753
	\$ 8,264	\$ 9,753

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Council's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$1,809,563 at December 31, 2020, were held in separate accounts and are generally not available for expenditures for normal operations.

In 2013, the Council's board of directors engaged Great Boards, LLC to conduct a study to estimate the remaining useful lives and replacement costs of the common property components. In subsequent years, the Council's paid staff perform annual studies to update reserve information, including but not limited to, replacement/repair items, replacement costs, useful lives and anticipated date of replacement/repairs.

Reserves shall be funded as the Council Board, in exercise of its business judgment, deems appropriate. These revenues are recognized in the Reserve Fund when assessments are billed. Funds are being accumulated in the reserve fund based on estimated future costs of repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Council has the right, subject to the governing documents, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

NOTE 9 – RETIREMENT PLANS

The Council's employees have the opportunity to participate in a 401(k) retirement plan after 90 days of employment. Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation, with the Council contributing a 50% match of the employee's first 6% contribution. The Council made matching contributions to the plan of approximately \$30,000 for the years ended December 31, 2020 and 2019.

NOTE 10 – CONTINGENCIES

The Council may become involved in claims and pending litigation arising in the ordinary course of business. The Council is currently not involved in any such litigation which management believes could have a material adverse effect on its financial position.



**Mansperger
Patterson
& McMullin, PLC**
CERTIFIED PUBLIC ACCOUNTANTS

Jeffrey C. McMullin
James A. Wraith
Bradley W. Enos
Diane R. Hayes
Stephen G. Hale
LaDawn Setser
Wendy M. Whittard
Garrett M. Burnett
Jennifer D. Robinson

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of

DC RANCH COMMUNITY COUNCIL, INC.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information about future repairs and replacements on page 14 be presented to supplement the basic financial statements. Such information, 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.

Mansperger Patterson & McMullin, PLC

Tempe, Arizona
June 4, 2021

DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2020

FUTURE MAJOR REPAIRS AND REPLACEMENTS

In 2020, the Council's paid staff conducted a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study, using a 2% annual inflation rate and a 1.5% annual return on investments.

A summary of the Estimated Current Replacement Cost and Current Reserve Fund Balance is presented below. Estimated remaining life is as of the date of the reserve study.

<u>Component</u>	<u>Estimated Remaining Life</u>	<u>Estimated Current Replacement Cost</u>	<u>Fund Balance as of December 31, 2020</u>
Administrative office	0 to 4	\$ 101,200	-
Community garden	0 to 23	64,721	-
Desert camp	0 to 26	2,116,639	-
Homestead	0 to 28	2,063,098	-
Market street park	0 to 13	161,920	-
Paths and trails	0 to 29	100,250	-
Unallocated		-	1,809,563
Total		\$ 4,607,828	\$ 1,809,563

See Independent Auditors' Report
on Supplementary Information.