



**DC RANCH COMMUNITY COUNCIL, INC.**

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FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2017 AND 2016  
AND FOR THE YEARS THEN ENDED



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**DC RANCH COMMUNITY COUNCIL, INC.**

**TABLE OF CONTENTS**

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 2
 FINANCIAL STATEMENTS	
Balance Sheet.....	3
Statement of Revenues, Expenses and Changes in Fund Balances.....	4 - 5
Statement of Cash Flows.....	6 - 7
Notes to Financial Statements.....	8 - 14
 SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements.....	15

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
DC Ranch Community Council, Inc.

### Report on Financial Statements

We have audited the accompanying financial statements of DC Ranch Community Council, Inc. (an Arizona Corporation), which comprise the balance sheet as of December 31, 2017, 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.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

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, 2017, and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

We have previously audited the DC Ranch Community Council, Inc.'s December 31, 2016 financial statements, and we expressed an unqualified opinion on those financial statements in our report dated April 30, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property, on page 15, 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, 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. 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.

*Butler Hansen, PLLC*

Gilbert, Arizona  
May 15, 2018

**DC RANCH COMMUNITY COUNCIL, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2016)**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2017</u>	<u>TOTAL 2016</u>
<b><u>ASSETS</u></b>					
Cash	\$ 446,933	\$ 361,968	\$ 268,703	\$ 1,077,604	\$ 1,135,538
Investments	783,720	721,375	200,794	1,705,889	1,496,471
Accounts Receivable, Net of Allowance of \$2,983 and \$3,269, 2017 and 2016, respectively	8,007	-	-	8,007	9,673
Builder/Developer Receivables	1,050	-	-	1,050	2,064
Related Party Receivables	62,259	-	-	62,259	111,367
Other Receivables	41,860	-	-	41,860	-
Prepaid Expense	35,980	-	-	35,980	35,614
Property and Equipment, Net	-	-	278,134	278,134	337,081
<b>TOTAL ASSETS</b>	<b>\$ 1,379,809</b>	<b>\$ 1,083,343</b>	<b>\$ 747,631</b>	<b>\$ 3,210,783</b>	<b>\$ 3,127,808</b>
<b><u>LIABILITIES</u></b>					
Accounts Payable	\$ 53,546	\$ 109	\$ -	\$ 53,655	\$ 98,410
Accrued Payroll	33,023	-	-	33,023	28,150
Vacation Accrual	36,936	-	-	36,936	34,659
Accrued Expense	2,221	-	-	2,221	4,004
Refundable Deposits	2,900	-	-	2,900	2,430
Prepaid Assessments	53,058	-	-	53,058	66,529
Unearned Revenue	17,680	-	-	17,680	12,475
Related Party Payable	2,077	-	-	2,077	3,767
Other Liabilities	1,289	-	-	1,289	402
<b>TOTAL LIABILITIES</b>	<b>202,730</b>	<b>109</b>	<b>-</b>	<b>202,839</b>	<b>250,826</b>
<b><u>FUND BALANCES</u></b>					
Operating Fund	1,177,079	-	-	1,177,079	1,193,463
Reserve Fund	-	1,083,234	-	1,083,234	1,028,574
Capital Fund	-	-	747,631	747,631	654,945
<b>TOTAL FUND BALANCES</b>	<b>1,177,079</b>	<b>1,083,234</b>	<b>747,631</b>	<b>3,007,944</b>	<b>2,876,982</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,379,809</b>	<b>\$ 1,083,343</b>	<b>\$ 747,631</b>	<b>\$ 3,210,783</b>	<b>\$ 3,127,808</b>

See accompanying notes to the financial statements.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2016)**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2017</u>	<u>TOTAL 2016</u>
<b>REVENUES</b>					
Community Council Benefit Fee	\$ 1,296,782	\$ -	\$ 237,000	\$ 1,533,782	\$ 1,754,749
Community Council Assessments	1,114,802	296,200	-	1,411,002	1,340,789
Commercial Assessments	523,800	-	-	523,800	500,520
Lifestyle Events	141,323	-	-	141,323	187,690
Covenant Expense Reimbursement	82,211	-	-	82,211	82,066
Facility Rental	54,005	-	-	54,005	30,927
Recreation Programming	36,224	-	-	36,224	26,676
Homestead Playhouse	24,783	-	-	24,783	23,896
Community Events and Celebrations	22,456	-	-	22,456	20,805
Builder and Developer Assessments	18,990	-	-	18,990	25,625
Investment and Interest Income	5,151	4,336	935	10,422	9,695
CFD Maintenance Reimbursement	7,700	-	-	7,700	7,700
Advertising	5,650	-	-	5,650	4,500
Parks and Recreation - Other	3,803	-	-	3,803	3,340
Miscellaneous Income	1,557	-	-	1,557	6,962
Disclosure Fee	1,450	-	-	1,450	1,500
Community Garden	1,115	-	-	1,115	1,950
<b>TOTAL REVENUES</b>	<u>3,341,802</u>	<u>300,536</u>	<u>237,935</u>	<u>3,880,273</u>	<u>4,029,390</u>
<b>EXPENSES</b>					
Administrative	1,013,540	-	-	1,013,540	912,966
Events and Programming	613,444	-	-	613,444	599,941
Desert Camp Cost Center	547,658	-	-	547,658	520,396
Communications	387,261	-	-	387,261	394,637
Major Repairs and Replacements	-	245,876	86,302	332,178	372,405
Ranch Expense Net Reimbursement	249,447	-	-	249,447	237,073
Homestead Cost Center	143,049	-	-	143,049	141,718
Lifestyle Events	126,639	-	-	126,639	207,631
Facilities Maintenance	84,505	-	-	84,505	86,955
Depreciation	-	-	58,947	58,947	83,896
Arts and Education	53,932	-	-	53,932	47,676
Community Building	42,935	-	-	42,935	27,455

(CONTINUED)

See accompanying notes to the financial statements.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**FUND BALANCES (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2016)**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2017</u>	<u>TOTAL 2016</u>
<b>EXPENSES (CONTINUED)</b>					
Employee Relations	40,636	-	-	40,636	36,271
Landscape Services	23,202	-	-	23,202	18,712
Insurance	18,879	-	-	18,879	15,370
Community Garden	12,995	-	-	12,995	9,816
Taxes	64	-	-	64	765
<b>TOTAL EXPENSES</b>	<u>3,358,186</u>	<u>245,876</u>	<u>145,249</u>	<u>3,749,311</u>	<u>3,713,683</u>
<b>EXCESS REVENUES (EXPENSES)</b>	(16,384)	54,660	92,686	130,962	315,707
<b>FUND BALANCES</b>					
<b>BEGINNING OF YEAR</b>	<u>1,193,463</u>	<u>1,028,574</u>	<u>654,945</u>	<u>2,876,982</u>	<u>2,561,275</u>
<b>FUND BALANCES</b>					
<b>END OF YEAR</b>	<u>\$ 1,177,079</u>	<u>\$ 1,083,234</u>	<u>\$ 747,631</u>	<u>\$ 3,007,944</u>	<u>\$ 2,876,982</u>

See accompanying notes to the financial statements.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2016)**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2017</u>	<u>TOTAL 2016</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Excess Revenues (Expenses)	\$ (16,384)	\$ 54,660	\$ 92,686	\$ 130,962	\$ 315,707
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities					
Depreciation Expense	-	-	58,947	58,947	83,896
Bad Debt Expense	87	-	-	87	470
(Increase)/Decrease In					
Accounts Receivable	1,579	-	-	1,579	43,369
Builder/Developer Receivables	1,014	-	-	1,014	(664)
Related Party Receivable	49,108	-	-	49,108	6,550
Other Receivables	(41,860)	-	-	(41,860)	5,567
Prepaid Expenses	(366)	-	-	(366)	12,428
Increase/(Decrease) In					
Accounts Payable	(26,752)	(11,431)	(6,572)	(44,755)	43,085
Accrued Payroll	4,873	-	-	4,873	5,555
Vacation Accrual	2,277	-	-	2,277	373
Accrued Expense	(1,783)	-	-	(1,783)	3,011
Refundable Deposits	470	-	-	470	330
Prepaid Assessments	(13,471)	-	-	(13,471)	2,513
Unearned Revenue	5,205	-	-	5,205	(8,971)
Related Party Payable	(1,690)	-	-	(1,690)	3,767
Other Liabilities	887	-	-	887	12
Net Cash Provided (Used) by Operating Activities	<u>(36,806)</u>	<u>43,229</u>	<u>145,061</u>	<u>151,484</u>	<u>516,998</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>					
Purchase of Investments	-	-	(200,000)	(200,000)	-
Reinvested Interest	(4,535)	(4,089)	(794)	(9,418)	(8,527)
Net Cash Provided (Used) by Investing Activities	<u>(4,535)</u>	<u>(4,089)</u>	<u>(200,794)</u>	<u>(209,418)</u>	<u>(8,527)</u>

(CONTINUED)

See accompanying notes to the financial statements.



**DC RANCH COMMUNITY COUNCIL, INC.**  
**STATEMENT OF CASH FLOWS (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2016)**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2017</u>	<u>TOTAL 2016</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>					
Change in Interfund Balances	(200,000)	-	200,000	-	-
Net Cash Provided (Used) by Financing Activities	<u>(200,000)</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(241,341)	39,140	144,267	(57,934)	508,471
<b>CASH BALANCE, BEGINNING OF YEAR</b>	<u>688,274</u>	<u>322,828</u>	<u>124,436</u>	<u>1,135,538</u>	<u>627,067</u>
<b>CASH BALANCE, END OF YEAR</b>	<u>\$ 446,933</u>	<u>\$ 361,968</u>	<u>\$ 268,703</u>	<u>\$ 1,077,604</u>	<u>\$ 1,135,538</u>
 <b><u>SUPPLEMENTARY INFORMATION</u></b>					
Income Taxes Paid	\$ 50				
Interest Paid	\$ -				

See accompanying notes to the financial statements.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

**NOTE 1 - NATURE OF THE ORGANIZATION**

DC Ranch Community Council, Inc. (the "Council"), a nonprofit corporation, was incorporated on March 15, 1996, under the general non-profit laws of the State of Arizona. The Council was established to provide 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 managed by a paid staff, with the Board of Directors providing oversight and policy making. The Board of Directors also approves and implements an annual financial budget from which the Council operates.

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

Fund Accounting

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 using the following funds established according to their nature and purpose:

Operating Fund

The Operating Fund is used to account for financial resources available for the general operations of the Council.

Reserve Fund

The Reserve Fund is used to account for the use and accumulation of funds for future major repairs and replacements.

Capital Fund

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

Accounts Receivable

Receivables at December 31, 2017, represent assessments due and other fees levied by the Council. The Council's assessments receivable are secured via the real property assessed and every reasonable effort is applied in attempting to collect receivables. The Council may bring legal action against owners obligated to pay, or foreclose on the property, as it deems necessary, to collect assessments receivable.

Assessments Collected in Advance

Payments received by the Council prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Council.

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 FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

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

Cash and Cash Equivalents

For statement of cash flows purposes, 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. Certificates of deposit and financial instruments, with original maturities, at date of purchase, of more than three months, are classified as investments.

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, 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. Accordingly, actual results could differ from those estimates. Estimates for the allowance for receivables are based on the Allowance Method.

Property and Equipment

In accordance with American Institute of Certified Public Accountants guidelines, 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 the members on the basis of usage.

The Council capitalizes all personal property it acquires with a cost of \$5,000 or more. Purchased personal property and equipment is recorded at cost and depreciated using the straight-line depreciation method over the useful lives of the property.

Certificates of Deposit

The Council invests in Certificates of Deposit that generally mature in three years or less. The Council intends to hold certificates of deposit until maturity. Certificates of deposit are recorded at cost.

Common Property

Certain land areas were contributed by the developer, upon completion of the project, at no cost to the Council, which are not reflected in the financial statements. The contributed areas consist of paths, paved sidewalks, and a park which can never be sold or subdivided. The Council has not placed a value on these assets.

Date of Management's Review

Subsequent events have been evaluated through May 15, 2018, which is the date the financial statements were available to be issued.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

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

Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by fund balance class. Prior period summarized financial information has been presented for comparison with current period amounts. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2016 from which the summarized information was derived. While the summarized information in the current year financial statements from 2016 is not in conformance with GAAP, the December 31, 2016 financial statements were prepared in conformance with GAAP.

**NOTE 3 - ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at December 31, 2017:

	Total Due	Over 90 Days
Assessments Receivable Builder and Developer	\$ 10,898	\$ 3,328
Assessments Receivable	1,050	-
Benefit Fee Receivable	17,950	-
Other Receivables	24,002	-
Total Gross Receivables	53,900	3,328
Less: Reserve for Bad Debt	(2,983)	(2,983)
Total Net Receivables	<u>\$ 50,917</u>	<u>\$ 345</u>

Total bad debt expense for the years ended December 31, 2017 and 2016, totaled \$87 and \$470, respectively. At December 31, 2017, an allowance for doubtful accounts for accounts receivable was recorded in the amount of \$2,983. Accounts receivable past due greater than 90 days at December 31, 2017, totaled \$3,328.

**NOTE 4 - ASSESSMENTS**

Residential Assessments

The assessments for the residential parcels are to provide funds for the Council's operating expenses and future major repairs and replacements. The actual billed assessment rates, on a monthly basis, in 2017 and 2016 were \$45 and \$43, respectively.

Commercial Assessments

The assessments for the commercial parcels varied according to the number of equivalent units calculated per parcel. The annual assessment per equivalent unit was \$45 and \$43 for 2017 and 2016, respectively. Excess assessments at year end are retained by the Council for use in future periods.

Builder and Developer Assessments

Builders and developers are assessed at 100% of the annualized residential assessment rates and are assessed on a monthly basis. For the years ending December 31, 2017 and 2016, the Council billed assessments to builders and developers in the amount of \$18,990 and \$25,625, respectively.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

**NOTE 5 - CONCENTRATION OF CREDIT RISK**

The Council's annual assessment revenue is subject to a significant concentration of credit risk, given that the revenue is received primarily within a small geographic area. The financial instruments that potentially subject the Council to credit risk consist principally of assessments receivable, the majority of which contain provisions for recovery by placing liens on real property and through legal judgments. In the event that the owners did not comply with the terms of the Covenants, Conditions and Restrictions and collection efforts by the Council were unsuccessful, the Council could incur a loss equal to the amount due.

The Council places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), or other types of insurance programs.

**NOTE 6 - CORPORATE INCOME TAX**

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 Council had a \$50 tax liability for the year ended December 31, 2017.

**NOTE 7 - UNCERTAIN TAX POSITIONS**

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 positions for the year ending December 31, 2017.

The Council believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Council's financial condition, net income or cash flows. Accordingly, the Council has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2017.

The Council is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Council believes it is no longer subject to income tax examinations by U.S. federal tax authorities for years before 2014, or by Arizona state tax authorities for years before 2013.

**NOTE 8 - COMPENSATED BALANCES**

Regular full-time or regular part-time employees working a minimum of 20 hours per week, accrue vacation time. Vacation time is accrued per pay period and based on the length of service of the employee. Up to 120 hours of vacation time can be carried over to a new calendar year. Any unused, accrued vacation time is paid out to employees at the time of termination. For the years ending December 31, 2017 and 2016, the Council had recorded accrued vacation of \$36,936 and \$34,659, respectively.

Regular full-time or regular part-time employees working a minimum of 20 hours per week, are provided paid sick leave by the Council. Eligible employees receive 10 days paid sick leave at the beginning of the calendar year.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

**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 \$29,000 and \$27,000 for the years ending December 31, 2017 and 2016, respectively.

**NOTE 10 - PROPERTY AND EQUIPMENT**

Depreciable property and equipment in use as of December 31, 2017 and 2016 consisted of the following:

	2017	2016
Equipment, furniture, and improvements	\$ 740,710	\$ 741,231
Less: Accumulated Depreciation	(462,576)	(404,150)
Net Property and Equipment	\$ 278,134	\$ 337,081

Depreciation expense for the years ended December 31, 2017 and 2016, was \$58,947 and \$83,896 respectively.

**NOTE 11 - OPERATING LEASE OBLIGATIONS**

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 12). The total cost of the office lease for the years ended December 31, 2017 and 2016, was approximately \$126,000 and \$124,000, with the Council responsible for approximately \$42,000 and \$41,000, respectively.

The minimum future lease payments under the operating leases at December 31, 2017 are as follows:

Years Ending December 31,	
2018	\$ 162,693
2019	132,367
2020	32,527
2021	8,074
2022	5,364
Total	\$ 341,025

Total Council portion of the expenses under operating leases was approximately \$55,000 and \$55,000 for the years ending December 31, 2017 and 2016, respectively.

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

**NOTE 12 - RELATED PARTY TRANSACTIONS**

DC Ranch Community Council (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 the year, through a cost sharing agreement approved by the Board of Directors, the related parties share various business expenses, such as office space and payroll. Under the current cost share agreement, the Council pays the Ranch and the Covenant Commission pays the Council a monthly expense reimbursement fee approved by the Board of Directors. These fees are reflected under “Ranch Expense Net Reimbursement” and “Covenant Expense Reimbursement”, respectively, on the accompanying Statement of Revenues, Expenses and Changes in Fund Balances. 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 share agreement states that each party shall share equally in the monthly lease payment.

The largest shared expense relates to the payroll and payroll benefits of employees shared between the Council and the Association. The Council and the Association use their own payroll processors to pay their employees, and then allocate the costs appropriately based on the cost share agreement. For the years ending December 31, 2017 and 2016, the Council allocated approximately \$233,000 and \$215,000, respectively, of payroll costs to the Association, and the Association allocated approximately \$500,000 and \$478,000, 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 and 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due from DC Ranch Association	<u>\$ 62,259</u>	<u>\$ 111,367</u>
Related Party Receivable	<u>\$ 62,259</u>	<u>\$ 111,367</u>

Related party payables consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Due to Covenant Commission	<u>\$ 2,077</u>	<u>\$ 3,767</u>
Related Party Payable	<u>\$ 2,077</u>	<u>\$ 3,767</u>

**DC RANCH COMMUNITY COUNCIL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)**

**NOTE 13 - RESERVE FUND**

The Council accumulates funds for future major repairs and replacements. At December 31, 2017, these funds were \$1,083,234 and are held in separate accounts and are generally not available for operating purposes.

In 2015, the Council's paid staff conducted a study to estimate the remaining useful lives and replacement costs of the common property components. The reserve study was completed on July 15, 2015, but was retroactive to January 1, 2015. The Council is funding future major repairs and replacements based on the study's estimates of current replacement costs. Funding considerations include amounts previously designated for future major repairs and replacements. Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Council may, with board member approval, increase regular assessments subject to the maximum annual assessment, levy special assessments, or delay major repairs and replacements until funds are available.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

The Council enters into various contracts for services. Generally the contracts are for terms of one year or less and can be canceled by either party with 30 to 90 day notifications.





**DC RANCH COMMUNITY COUNCIL,  
INC.**

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**SUPPLEMENTARY  
INFORMATION**



**DC RANCH COMMUNITY COUNCIL, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR**  
**REPAIRS AND REPLACEMENTS**  
**DECEMBER 31, 2017**

In 2015, the Council's paid staff conducted a study to estimate the replacement costs of certain common property components. The study was completed on July 15, 2015, but was retroactive to January 1, 2015. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date, but do take into account an inflation rate of 2.0%.

The following table is based on the study and presents significant information about the components of common property.

Component	Current Remaining Life (Years)	Estimated Current Replacement Cost	Estimated Future Replacement Cost	Reserve Fund Balance December 31, 2017
Website	2	\$ 30,000	\$ 31,186	\$ -
Community Garden	1 to 29	75,845	108,837	-
Desert Camp	0 to 33	1,087,418	1,218,017	-
Homestead	0 to 22	696,947	815,440	-
Market Street Park	0 to 25	137,470	154,087	-
Path and Trails	0 to 18	21,250	25,694	-
Unallocated		-	-	1,083,234
		<u>\$ 2,048,930</u>	<u>\$ 2,353,261</u>	<u>\$ 1,083,234</u>

See independent auditor's report.