



DC RANCH COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018 AND 2017
AND FOR THE YEARS THEN ENDED



DC RANCH COMMUNITY COUNCIL, INC.

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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, 2018, 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, 2018, 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, 2017 financial statements, and we expressed an unqualified opinion on those financial statements in our report dated May 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 - 17, 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
April 22, 2019

DC RANCH COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2018</u>	<u>TOTAL 2017</u>
<u>ASSETS</u>					
Cash	\$ 516,515	\$ 642,044	\$ 1,003,784	\$ 2,162,343	\$ 1,077,604
Certificates of Deposit	788,646	725,949	201,758	1,716,353	1,705,889
Accounts Receivable, Net of Allowance of \$2,122 and \$2,983, 2018 and 2017, respectively	16,496	-	-	16,496	8,007
Builder/Developer Receivables	282	-	-	282	1,050
Related Party Receivables	102,887	-	-	102,887	62,259
Other Receivables	23,947	-	-	23,947	41,860
Prepaid Expenses	27,275	-	-	27,275	35,980
Property and Equipment, Net	-	-	244,516	244,516	278,134
	<u>-\$ 1,476,048</u>	<u>\$ 1,367,993</u>	<u>\$ 1,450,058</u>	<u>\$ 4,294,099</u>	<u>\$ 3,210,783</u>
TOTAL ASSETS					
<u>LIABILITIES</u>					
Accounts Payable	\$ 55,421	\$ 7,655	\$ 6,193	\$ 69,269	\$ 53,655
Accrued Expense	-	-	10,740	10,740	-
Accrued Payroll	36,312	-	-	36,312	33,023
Vacation Accrual	39,189	-	-	39,189	36,936
Accrued Expense	-	-	-	-	2,221
Refundable Deposits	2,595	-	-	2,595	2,900
Prepaid Assessments	62,229	-	-	62,229	53,058
Unearned Revenue	5,165	-	-	5,165	17,680
Related Party Payable	-	-	-	-	2,077
Other Liabilities	665	-	-	665	1,289
	<u>201,576</u>	<u>7,655</u>	<u>16,933</u>	<u>226,164</u>	<u>202,839</u>
TOTAL LIABILITIES					
<u>FUND BALANCES</u>					
Operating Fund	1,274,472	-	-	1,274,472	1,177,079
Reserve Fund	-	1,360,338	-	1,360,338	1,083,234
Capital Fund	-	-	1,433,125	1,433,125	747,631
	<u>1,274,472</u>	<u>1,360,338</u>	<u>1,433,125</u>	<u>4,067,935</u>	<u>3,007,944</u>
TOTAL FUND BALANCES					
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,476,048</u>	<u>\$ 1,367,993</u>	<u>\$ 1,450,058</u>	<u>\$ 4,294,099</u>	<u>\$ 3,210,783</u>

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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL 2018	TOTAL 2017
REVENUES					
Community Council Benefit Fee	\$ 1,663,859	\$ -	\$ 817,600	\$ 2,481,459	\$ 1,533,782
Community Council Assessments	952,904	524,940	-	1,477,844	1,411,002
Commercial Assessments	547,080	-	-	547,080	523,800
Covenant Expense Reimbursement	83,642	-	-	83,642	82,211
Facility Rental	47,442	-	-	47,442	54,005
Recreation Programming	28,627	-	-	28,627	36,224
Charitable Events	24,415	-	-	24,415	141,323
Community Events and Celebration	24,409	-	-	24,409	22,456
Arts and Education	21,055	-	-	21,055	24,783
Builder and Developer Assessments	14,147	-	-	14,147	18,990
Service Fee Revenue	12,660	-	-	12,660	-
Investment and Interest Income	5,654	5,944	983	12,581	10,422
CFD Maintenance Reimbursement	7,700	-	-	7,700	7,700
Advertising	3,960	-	-	3,960	5,650
Key FOBS	3,710	-	-	3,710	3,803
Disclosure Fee	2,150	-	-	2,150	1,450
Miscellaneous Income	2,128	-	-	2,128	1,557
Community Garden	1,225	-	-	1,225	1,115
TOTAL REVENUES	3,446,767	530,884	818,583	4,796,234	3,880,273
EXPENSES					
Administration	1,038,763	-	-	1,038,763	1,013,540
Events/Clubs/Classes	596,056	-	-	596,056	613,444
Desert Camp Cost Center	522,453	-	-	522,453	547,658
Communications	424,847	-	-	424,847	387,261
Major Repairs and Replacements	-	233,942	99,472	333,414	332,178
Ranch Expense Net Reimbursement	274,569	-	-	274,569	249,447
Homestead Cost Center	126,228	-	-	126,228	143,049
Seasonal Decorations	92,892	-	-	92,892	73,831
Charitable Events	80,911	-	-	80,911	126,639
Arts and Education	56,200	-	-	56,200	53,932
Depreciation	-	-	53,455	53,455	58,947
Employee Relations	39,643	-	-	39,643	40,636

(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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2018</u>	<u>TOTAL 2017</u>
EXPENSES (CONTINUED)					
Market Street Park/Paths and Trails	32,730	-	-	32,730	33,876
New Residents and Community Building	27,502	-	-	27,502	42,935
Insurance	19,376	-	-	19,376	18,879
Community Garden	16,299	-	-	16,299	12,995
Taxes	905	-	-	905	64
TOTAL EXPENSES	<u>3,349,374</u>	<u>233,942</u>	<u>152,927</u>	<u>3,736,243</u>	<u>3,749,311</u>
EXCESS REVENUES (EXPENSES)	97,393	296,942	665,656	1,059,991	130,962
FUND BALANCES					
BEGINNING OF YEAR	<u>1,177,079</u>	<u>1,083,234</u>	<u>747,631</u>	<u>3,007,944</u>	<u>2,876,982</u>
TRANSFERS BETWEEN FUNDS					
Capital Fixed Asset Transfers	-	(19,838)	19,838	-	-
TOTAL TRANSFERS BETWEEN FUNDS	<u>-</u>	<u>(19,838)</u>	<u>19,838</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
END OF YEAR	<u>\$ 1,274,472</u>	<u>\$ 1,360,338</u>	<u>\$ 1,433,125</u>	<u>\$ 4,067,935</u>	<u>\$ 3,007,944</u>

See accompanying notes to the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2018</u>	<u>TOTAL 2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Excess Revenues (Expenses)	\$ 97,393	\$ 296,942	\$ 665,656	\$ 1,059,991	\$ 130,962
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by					
Operating Activities					
Depreciation Expense	-	-	53,455	53,455	58,947
Bad Debt Expense	-	-	-	-	87
(Increase)/Decrease In					
Accounts Receivable	(8,489)	-	-	(8,489)	1,579
Builder/Developer Receivables	768	-	-	768	1,014
Related Party Receivables	(40,628)	-	-	(40,628)	49,108
Other Receivables	17,913	-	-	17,913	(41,860)
Prepaid Expenses	8,705	-	-	8,705	(366)
Increase/(Decrease) In					
Accounts Payable	1,875	7,546	6,193	15,614	(44,755)
Accrued Expense	-	-	10,740	10,740	-
Accrued Payroll	3,289	-	-	3,289	4,873
Vacation Accrual	2,253	-	-	2,253	2,277
Accrued Expense	(2,221)	-	-	(2,221)	(1,783)
Refundable Deposits	(305)	-	-	(305)	470
Prepaid Assessments	9,171	-	-	9,171	(13,471)
Unearned Revenue	(12,515)	-	-	(12,515)	5,205
Related Party Payable	(2,077)	-	-	(2,077)	(1,690)
Other Liabilities	(624)	-	-	(624)	887
Net Cash Provided (Used) by Operating Activities	<u>74,508</u>	<u>304,488</u>	<u>736,044</u>	<u>1,115,040</u>	<u>151,484</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Purchase of Investments	-	-	-	-	(200,000)
Reinvested Interest	(4,926)	(4,574)	(963)	(10,463)	(9,418)
Purchase of Fixed Assets	-	-	(19,838)	(19,838)	-
Net Cash Provided (Used) by Investing Activities	<u>(4,926)</u>	<u>(4,574)</u>	<u>(20,801)</u>	<u>(30,301)</u>	<u>(209,418)</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, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2018</u>	<u>TOTAL 2017</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Capital Fixed Asset Transfers	-	(19,838)	19,838	-	-
Net Cash Provided (Used) by Financing Activities	-	(19,838)	19,838	-	-
NET INCREASE (DECREASE) IN CASH	69,582	280,076	735,081	1,084,739	(57,934)
CASH BALANCE, BEGINNING OF YEAR	446,933	361,968	268,703	1,077,604	1,135,538
CASH BALANCE, END OF YEAR	<u>\$ 516,515</u>	<u>\$ 642,044</u>	<u>\$ 1,003,784</u>	<u>\$ 2,162,343</u>	<u>\$ 1,077,604</u>
 <u>SUPPLEMENTARY INFORMATION</u>					
Income Taxes Paid	\$ 50			\$ 50	
Interest Paid	\$ -			\$ -	

See accompanying notes to the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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 governance. 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, 2018, 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 not recognized as revenue until the corresponding assessment is billed by the Council, in accordance with GAAP.

Fair Value of Financial Instruments

Unless otherwise indicated, investments are measured at fair value as of period-end in the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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 certificates of deposit.

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 the Board of Directors, for cash or claims to cash and 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 acquired 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 life 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; therefore, 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.

Date of Management's Review

Subsequent events have been evaluated through April 22, 2019, which is the date the financial statements were available to be issued.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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, 2017 from which the summarized information was derived. While the summarized information in the current year financial statements from 2017 is not in conformance with GAAP, the December 31, 2017 financial statements were prepared in conformance with GAAP.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2018 and 2017:

	2018	2017
Assessments Receivable Builder and Developer	\$ 282	\$ 10,898
Assessments Receivable	18,618	1,050
Benefit Fee Receivable	20,891	17,950
Other Receivables	3,056	24,002
Total Gross Receivables	42,847	53,900
Less: Reserve for Bad Debt	(2,122)	(2,983)
Total Net Receivables	\$ 40,725	\$ 50,917

Total bad debt expense for the years ended December 31, 2018 and 2017, totaled \$0 and \$87, respectively. Accounts receivable past due greater than 90 days at December 31, 2018 and 2017, totaled \$3,055 and \$3,328, respectively.

NOTE 4 - ASSESSMENTS

Residential Assessments

The assessments for the residential parcels provide funds for the Council's operating expenses and future major repairs and replacements. The actual billed monthly assessment rates in 2018 and 2017 were \$47 and \$45, respectively.

Commercial Assessments

The assessments for the commercial parcels vary according to the number of equivalent units calculated per parcel. The annual assessment per equivalent unit was \$47 and \$45 for 2018 and 2017, 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 monthly at 100% of the annualized residential assessment rates. For the years ended December 31, 2018 and 2017, the Council billed assessments to builders and developers in the amount of \$14,147 and \$18,990, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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, 2018.

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 ended December 31, 2018.

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, 2018.

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 2015, or by Arizona state tax authorities for years before 2014.

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, based on the length of service of the employee. A maximum of 80-160 hours of vacation time, based on length of service, can be accumulated at any given time. Any unused accrued vacation time is paid out to employees at the time of termination. For the years ended December 31, 2018 and 2017, the Council had recorded accrued vacation of \$39,189 and \$36,936, respectively.

All employees are provided paid sick leave by the Council. Eligible full-time employees receive 10 days paid sick leave at the beginning of the calendar year. Part-time staff accrue one hour of paid sick time for each 30 hours worked.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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 and \$29,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 10 - PROPERTY AND EQUIPMENT

Depreciable property and equipment in use as of December 31, 2018 and 2017 consisted of the following:

	2018	2017
Equipment, furniture, and improvements	\$ 760,548	\$ 740,710
Less: Accumulated Depreciation	(516,032)	(462,576)
Net Property and Equipment	\$ 244,516	\$ 278,134

Depreciation expense for the years ended December 31, 2018 and 2017, was \$53,455 and \$58,947 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, 2018 and 2017, was approximately \$131,000 and \$126,000, with the Council responsible for approximately \$44,000 and \$42,000, respectively.

The minimum future lease payments under the operating leases at December 31, 2018 are as follows:

Years Ended December 31,	
2019	\$ 132,691
2020	32,527
2021	10,297
2022	5,364
Total	\$ 180,879

Total Council portion of the expenses under operating leases was approximately \$56,000 and \$55,000 for the years ended December 31, 2018 and 2017, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

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 sharing agreement, the Council pays the Ranch and the Covenant Commission pays the Council a monthly expense reimbursement fee approved by the Executive Directors of the three organizations. 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 sharing agreement states that each party shall share equally in the monthly lease payment.

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, 2018 and 2017, the Council allocated approximately \$221,000 and \$233,000, respectively, of payroll costs to the Association, and the Association allocated approximately \$520,000 and \$500,000, 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, 2018 and 2017:

	2018	2017
Due from DC Ranch Association	\$ 102,741	\$ 62,259
Due from Covenant Commission	146	-
Related Party Receivable	\$ 102,887	\$ 62,259

Related party payables consisted of the following at December 31, 2018 and 2017:

	2018	2017
Due to Covenant Commission	\$ -	\$ 2,077
Related Party Payable	\$ -	\$ 2,077

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

NOTE 13 - RESERVE FUND

The Council's governing documents require funds to be accumulated for future major repairs and replacements. At December 31, 2018, funds accumulated for this purpose totaled \$1,360,338. The funds are held in separate accounts and are generally not available for operating purposes.

In 2013, the Council engaged Great Boards LLC, an independent firm, 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. In 2018, this audit was performed in June and the reserve study was updated accordingly.

Funds are being accumulated in the reserve fund based on estimated future replacement costs for 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 or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Council may, with Board approval under certain conditions, 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.**

SUPPLEMENTARY
INFORMATION



DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2018

In 2018, the Council's paid staff conducted a study to estimate the replacement costs of certain common property components. The study was completed in June 2018. 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 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, 2018
Desert Camp				
Appliances	1 to 13	\$ 11,200	\$ 11,875	\$ -
Bridges and Walkways	0 to 6	60,000	63,783	-
Building Components	0 to 18	31,650	37,285	-
Concrete	0 to 11	12,500	13,108	-
Doors and Windows	2 to 7	18,000	19,917	-
Fencing	18	15,000	21,423	-
Flooring	1 to 9	53,452	61,744	-
Furniture Exterior	0 to 6	105,770	114,049	-
Furniture Interior	3 to 4	43,000	46,428	-
Holiday	16	100,000	137,278	-
HVAC	0 to 1	43,000	43,800	-
Landscaping and Irrigation	0 to 13	65,738	81,005	-
Lighting	3 to 9	73,500	81,923	-
Outdoor Surfaces & Courts	1 to 9	69,785	73,847	-
Painting	0 to 3	42,600	44,505	-
Pavement	0 to 13	291,300	365,605	-
Playground	0	125,000	125,000	-
Plumbing	6	5,100	5,743	-
Pool	0 to 4	178,890	187,856	-
Recreation	0 to 12	98,166	108,722	-
Remodeling	1 to 12	171,000	211,656	-
Roofing	8 to 13	36,765	46,734	-
Shade Screen	0 to 6	21,870	24,593	-
Technology	0	8,000	8,000	-
Trash Receptacles	7 to 8	43,500	50,047	-
Vehicle	12	40,000	50,729	-
Walls and Fences	3	19,000	20,162	-
Water Cooler	4 to 6	20,503	22,323	-
Total Desert Camp		<u>1,804,289</u>	<u>2,079,140</u>	<u>-</u>

(CONTINUED)

See independent auditor's report.

DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (CONTINUED)
DECEMBER 31, 2018

Component	Current Remaining Life (Years)	Estimated Current Replacement Cost	Estimated Future Replacement Cost	Reserve Fund Balance December 31, 2018
Homestead				
Appliances	2 to 11	14,200	15,507	-
Building Components	0 to 27	87,600	102,984	-
Concrete	1 to 12	8,500	9,290	-
Doors and Windows	0 to 2	24,500	24,855	-
Flooring	0 to 1	61,120	61,380	-
Furniture Exterior	0 to 5	42,000	43,457	-
Furniture Interior	0 to 5	60,000	62,693	-
HVAC	0 to 7	56,000	59,424	-
Landscaping and Irrigation	0 to 11	46,300	53,156	-
Lighting	1 to 15	58,000	70,607	-
Outdoor Surfaces & Courts	3 to 8	10,500	11,970	-
Painting	3 to 6	32,000	35,026	-
Pavement	3 to 22	33,300	41,542	-
Playground	0 to 8	88,000	100,043	-
Plumbing	0	1,530	1,530	-
Recreation	0 to 2	7,500	7,651	-
Remodeling	1 to 2	81,000	83,844	-
Roofing	0 to 12	59,000	72,412	-
Technology	0 to 1	15,000	15,100	-
Trash Receptacles	7 to 11	23,000	26,750	-
Water Cooler	4	5,000	5,412	-
Water Feature	5 to 8	23,300	27,209	-
Total Homestead		837,350	931,842	-
Market Street Park				
Bridges and Walkways	4	19,520	21,129	-
Concrete	0 to 12	12,500	13,170	-
Furniture Exterior	6	6,500	7,320	-
Landscaping and Irrigation	0 to 21	42,268	54,509	-
Lighting	6	5,000	5,686	-
Playground	7	18,000	20,676	-
Shade Screen	8	20,000	23,433	-
Trash Receptacles	5	3,600	3,974	-
Water Cooler	2 to 7	4,170	4,663	-
Water Feature	3 to 9	24,500	27,189	-
Total Market Street Park		156,058	181,749	-

(CONTINUED)

See independent auditor's report.

DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (CONTINUED)
DECEMBER 31, 2018

<u>Component</u>	<u>Current Remaining Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Estimated Future Replacement Cost</u>	<u>Reserve Fund Balance December 31, 2018</u>
Community				
Concrete	0	5,000	5,000	-
Furniture Exterior	2 to 4	7,570	8,001	-
Landscaping and Irrigation	5 to 20	11,929	15,919	-
Painting	0	2,500	2,500	-
Shade Screen	5	8,000	8,832	-
Trash Receptacles	4	1,200	1,298	-
Walls and Fences	25	19,460	31,926	-
Total Community		55,659	73,476	-
Path and Trails				
Building Components	5 to 15	11,762	13,952	-
Concrete	0	15,000	15,000	-
Lighting	2	4,000	4,161	-
Trash Receptacles	0 to 5	6,270	6,874	-
Total Path and Trails		37,032	39,987	-
Administration Office				
Furniture Interior	3 to 4	10,000	10,718	-
Technology	0 to 7	78,100	79,263	-
Total Administration Office		88,100	89,981	-
Total		\$ 2,978,488	\$ 3,396,175	\$ 1,360,338

See independent auditor's report.