



DC RANCH COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018
AND FOR THE YEARS THEN ENDED



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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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unqualified opinion on those financial statements in our report dated April 22, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 16, 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 9, 2020

DC RANCH COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

<u>ASSETS</u>	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
Cash	\$ 1,761,617	\$ 1,469,579	\$ 1,327,262	\$ 4,558,458	\$ 2,162,343
Certificates of Deposit	-	-	-	-	1,716,353
Accounts Receivable, Net of Allowance of \$1,354 and \$2,122, 2019 and 2018, respectively	4,716	-	-	4,716	16,496
Builder/Developer Receivables	-	-	-	-	282
Related Party Receivables	57,454	-	-	57,454	102,887
Other Receivables	23,268	-	-	23,268	23,947
Prepaid Expenses	17,599	-	-	17,599	27,275
Property and Equipment, Net	-	-	206,274	206,274	244,516
TOTAL ASSETS	\$ 1,864,654	\$ 1,469,579	\$ 1,533,536	\$ 4,867,769	\$ 4,294,099
 <u>LIABILITIES</u>					
Accounts Payable	\$ 80,061	\$ -	\$ -	\$ 80,061	\$ 69,269
Accrued Expense	-	-	-	-	10,740
Accrued Payroll	44,968	-	-	44,968	36,312
Vacation Accrual	45,970	-	-	45,970	39,189
Refundable Deposits	3,805	-	-	3,805	2,595
Prepaid Assessments	68,676	-	-	68,676	62,229
Unearned Revenue	7,620	-	-	7,620	5,165
Related Party Payable	9,753	-	-	9,753	-
Other Liabilities	427	-	-	427	665
TOTAL LIABILITIES	261,280	-	-	261,280	226,164
 <u>FUND BALANCES</u>					
Operating Fund	1,603,374	-	-	1,603,374	1,274,472
Reserve Fund	-	1,469,579	-	1,469,579	1,360,338
Capital Fund	-	-	1,533,536	1,533,536	1,433,125
TOTAL FUND BALANCES	1,603,374	1,469,579	1,533,536	4,606,489	4,067,935
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,864,654	\$ 1,469,579	\$ 1,533,536	\$ 4,867,769	\$ 4,294,099

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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL 2019	TOTAL 2018
REVENUES					
Community Council Benefit Fee	\$ 1,649,958	\$ -	\$ 324,000	\$ 1,973,958	\$ 2,481,459
Community Council Assessments	1,237,227	311,184	-	1,548,411	1,477,844
Commercial Assessments	570,360	-	-	570,360	547,080
Charitable Events	105,230	-	-	105,230	24,415
Covenant Expense Reimbursement	86,847	-	-	86,847	83,642
Investment and Interest Income	14,767	18,924	14,419	48,110	12,581
Facility Rental	44,509	-	-	44,509	47,442
Recreation Programming	31,739	-	-	31,739	28,627
Arts and Education	24,659	-	-	24,659	21,055
Community Events and Celebration	23,041	-	-	23,041	24,409
Builder and Developer Assessments	18,473	-	-	18,473	14,147
Service Fee Revenue	10,416	-	-	10,416	12,660
Community Garden	9,860	-	-	9,860	1,225
CFD Maintenance Reimbursement	7,700	-	-	7,700	7,700
Advertising	7,380	-	-	7,380	3,960
Key FOBS	3,200	-	-	3,200	3,710
Miscellaneous Income	2,313	-	-	2,313	2,128
Disclosure Fee	1,450	-	-	1,450	2,150
TOTAL REVENUES	3,849,129	330,108	338,419	4,517,656	4,796,234
EXPENSES					
Administration	1,111,044	-	-	1,111,044	1,038,763
Desert Camp Cost Center	597,953	-	-	597,953	522,453
Events/Clubs/Classes	590,921	-	-	590,921	596,056
Communications	462,618	-	-	462,618	424,847
Major Repairs and Replacements	-	220,867	192,737	413,604	333,414
Ranch Expense Net Reimbursement	295,691	-	-	295,691	274,569
Homestead Cost Center	117,010	-	-	117,010	126,228
Charitable Events	110,005	-	-	110,005	80,911
Seasonal Decorations	63,017	-	-	63,017	92,892
Arts and Education	57,652	-	-	57,652	56,200
Employee Relations	50,801	-	-	50,801	39,643
Depreciation	-	-	45,271	45,271	53,455

(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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
EXPENSES (CONTINUED)					
New Residents and Community Building	24,371	-	-	24,371	27,502
Insurance	20,939	-	-	20,939	19,376
Market Street Park/Paths and Trails	17,709	-	-	17,709	32,730
Taxes	496	-	-	496	905
Community Garden	-	-	-	-	16,299
TOTAL EXPENSES	<u>3,520,227</u>	<u>220,867</u>	<u>238,008</u>	<u>3,979,102</u>	<u>3,736,243</u>
EXCESS REVENUES (EXPENSES)	328,902	109,241	100,411	538,554	1,059,991
FUND BALANCES					
BEGINNING 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>
FUND BALANCES					
END 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>

See accompanying notes to the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Excess Revenues (Expenses)	\$ 328,902	\$ 109,241	\$ 100,411	\$ 538,554	\$ 1,059,991
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by					
Operating Activities					
Depreciation Expense	-	-	45,271	45,271	53,455
Bad Debt Expense	(441)	-	-	(441)	(861)
(Increase)/Decrease In					
Accounts Receivable	12,221	-	-	12,221	(7,628)
Builder/Developer Receivables	282	-	-	282	768
Related Party Receivables	45,433	-	-	45,433	(40,628)
Other Receivables	679	-	-	679	17,913
Prepaid Expenses	9,676	-	-	9,676	8,705
Increase/(Decrease) In					
Accounts Payable	24,640	(7,655)	(6,193)	10,792	15,614
Accrued Expense	-	-	(10,740)	(10,740)	8,519
Accrued Payroll	8,656	-	-	8,656	3,289
Vacation Accrual	6,781	-	-	6,781	2,253
Refundable Deposits	1,210	-	-	1,210	(305)
Prepaid Assessments	6,447	-	-	6,447	9,171
Unearned Revenue	2,455	-	-	2,455	(12,515)
Related Party Payable	9,753	-	-	9,753	(2,077)
Other Liabilities	(238)	-	-	(238)	(624)
Net Cash Provided (Used) by Operating Activities	<u>456,456</u>	<u>101,586</u>	<u>128,749</u>	<u>686,791</u>	<u>1,115,040</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Maturities of Certificates of Deposit	788,646	725,949	201,758	1,716,353	-
Reinvested Interest	-	-	-	-	(10,463)
Purchase of Fixed Assets	-	-	(7,029)	(7,029)	(19,838)
Net Cash Provided (Used) by Investing Activities	<u>788,646</u>	<u>725,949</u>	<u>194,729</u>	<u>1,709,324</u>	<u>(30,301)</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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	-	-	-	-	-
NET INCREASE (DECREASE) IN CASH	1,245,102	827,535	323,478	2,396,115	1,084,739
CASH BALANCE, BEGINNING 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>
CASH BALANCE, END OF YEAR	<u>\$ 1,761,617</u>	<u>\$ 1,469,579</u>	<u>\$ 1,327,262</u>	<u>\$ 4,558,458</u>	<u>\$ 2,162,343</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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

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, 2019, 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.

Prepaid Assessments and Revenue Recognition

Payments received by the Association prior to the assessment due date are properly classified as Prepaid Assessments. These payments are recognized as revenue when the corresponding assessment is billed by the Council. Revenue from assessments, allocated to either the operating or reserve fund, is recognized as the performance obligation to maintain the community and to provide ongoing services is considered completed, generally on a monthly basis.

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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

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 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; 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 9, 2020, which is the date the financial statements were available to be issued.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

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, 2018 from which the summarized information was derived. While the summarized information in the current year financial statements from 2018 is not in conformance with GAAP, the December 31, 2018 financial statements were prepared in conformance with GAAP.

NOTE 3 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance, as ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2015-14, *Revenue from Contracts with Customers (Topic 606); Deferral of the Effective Date*, and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606); Identifying Performance Obligations and Licensing*, that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services that satisfy the performance obligation are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Council adopted the requirements of this new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Council applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019.

However, adoption of the new guidance did not result in changes as to how revenue for the Council is reported. Because the adoption of the new revenue recognition guidance did not result in retrospective treatment of the financial statements, no related disclosures are being reported.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2019 and 2018:

	2019	2018
Assessments Receivable Builder and Developer	\$ -	\$ 282
Assessments Receivable	6,070	18,618
Benefit Fee Receivable	15,800	20,891
Other Receivables	7,468	3,056
Total Gross Receivables	29,338	42,847
Less: Reserve for Bad Debt	(1,354)	(2,122)
Total Net Receivables	<u>\$ 27,984</u>	<u>\$ 40,725</u>

Total bad debt expense for the years ended December 31, 2019 and 2018, totaled (\$441) and (\$861), respectively. Accounts receivable past due greater than 90 days at December 31, 2019 and 2018, totaled \$1,626 and \$3,055, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 5 - ASSESSMENTS

Council property owners are subject to annual assessments, billed on a periodic basis, to provide funds for the Council's operating expenses and major repairs and replacements. Assessment revenue allocated to the operating and reserve funds is recognized as the related performance obligation is satisfied for transaction amounts expected to be collected. The Council's performance obligation related to annual assessments, billed on a periodic basis, is satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding homeowners' assessments. The Council's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are sixty days or more delinquent. Any excess assessments at year end are retained by the Council for use in the succeeding year. There is no maximum annual assessment defined in the Council's governing documents.

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 2019 and 2018 were \$49 and \$47, 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 \$49 and \$47 for 2019 and 2018, 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, 2019 and 2018, the Council billed assessments to builders and developers in the amount of \$18,473 and \$14,147, respectively.

At December 31, 2019, the Council had delinquent assessments of \$6,070. It is the opinion of the Board of Directors that the Council will ultimately prevail against the majority of the homeowners with delinquent assessments.

The Council treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Council's control. The balances of assessments receivable as of the beginning and end of the year are \$18,900 and \$6,070, respectively.

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Council's primary source of revenue is member assessments and benefit fees, which are earned on assessable lots or parcels located within a small geographic area. Member assessments, benefit fees and related receivables are subject to significant concentration of credit risk, given that they are primarily from a small geographical area, which can be impacted by similar economic conditions. Member assessments may be secured by liens upon a member's property or legal judgements. The Council monitors the collectability of these receivables and pursues collection as needed. Should the Council's collection efforts be unsuccessful, the Council could incur losses up to the full amount due. Management routinely assesses the collectability of these receivables and provides for an allowance for doubtful accounts.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 6 - CONCENTRATION OF CREDIT RISK (CONTINUED)

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 7 - 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, 2019.

NOTE 8 - 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, 2019.

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, 2019.

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 2016, or by Arizona state tax authorities for years before 2015.

NOTE 9 - 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, 2019 and 2018, the Council had recorded accrued vacation of \$45,970 and \$39,189, 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.

NOTE 10 - 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, 2019 and 2018.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 11 - PROPERTY AND EQUIPMENT

Depreciable property and equipment in use as of December 31, 2019 and 2018 consisted of the following:

	2019	2018
Equipment, furniture, and improvements	\$ 714,576	\$ 760,548
Less: Accumulated Depreciation	(508,302)	(516,032)
Net Property and Equipment	\$ 206,274	\$ 244,516

Depreciation expense for the years ended December 31, 2019 and 2018, was \$45,271 and \$53,455 respectively.

NOTE 12 - 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 13). The total cost of the office lease for the years ended December 31, 2019 and 2018, was approximately \$144,000 and \$137,000, respectively.

The minimum future lease payments under the operating leases at December 31, 2019 are as follows:

<u>Years Ended</u> <u>December 31,</u>	
2020	\$ 139,001
2021	119,965
2022	118,322
2023	116,348
2024	89,210
Total	\$ 582,846

Total Council portion of the expenses under operating leases was approximately \$48,000 and \$44,000 for the years ended December 31, 2019 and 2018, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
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NOTE 13 - 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, 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 based on allocated space 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, 2019 and 2018, the Council allocated approximately \$255,000 and \$221,000, respectively, of payroll costs to the Association, and the Association allocated approximately \$540,000 and \$520,000, 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, 2019 and 2018:

	2019	2018
Due from DC Ranch Association	\$ 57,454	\$ 102,741
Due from Covenant Commission	-	146
Related Party Receivable	\$ 57,454	\$ 102,887

Related party payables consisted of the following at December 31, 2019 and 2018:

	2019	2018
Due to Covenant Commission	\$ 9,753	\$ -
Related Party Payable	\$ 9,753	\$ -

DC RANCH COMMUNITY COUNCIL, INC.
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NOTE 14 - RESERVE FUND

The Council's governing documents require funds to be accumulated for future major repairs and replacements. At December 31, 2019, funds accumulated for this purpose totaled \$1,469,579. 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. The reserve study is updated annually.

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 15 - 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.

NOTE 16 – 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, 2019 and 2018, the Council recorded \$1,973,958 and \$2,481,459 in Community Council Benefit fee revenue, which represents approximately 44% and 52% of total revenue recorded, respectively.

NOTE 17 - SUBSEQUENT EVENT

Subsequent to December 31, 2019, but before issuance of the December 31, 2019 financial statements, a pandemic caused by the coronavirus (COVID-19) has had a significant detrimental impact on the United States economy. As a result, economic uncertainties have arisen which could negatively impact revenue for the Association. Other financial impacts such as bad debt losses, contract modifications, inadequate reserve funding, or other unforeseen circumstances could occur.



**DC RANCH COMMUNITY COUNCIL,
INC.**

SUPPLEMENTARY
INFORMATION



DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019

In 2019, the Council's paid staff conducted a study to estimate the replacement costs of certain common property components. The study was completed in August 2019. 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.

<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, 2019</u>
Administrative Office	0 to 15	\$ 192,600	\$ 229,245	\$ -
Community Garden	1 to 24	64,421	79,687	-
Desert Camp	0 to 27	1,895,419	2,077,145	-
Homestead	0 to 29	1,973,950	2,063,125	-
Market Street Park	0 to 14	161,590	175,564	-
Paths and Trails	0 to 4	29,350	30,344	-
Totals		<u>\$ 4,317,330</u>	<u>\$ 4,655,110</u>	<u>\$ 1,469,579</u>

See independent auditor's report.