

DC RANCH COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of

DC RANCH COMMUNITY COUNCIL, INC.

Opinion

We have audited the accompanying financial statements of DC Ranch Community Council, Inc., which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DC Ranch Community Council, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DC Ranch Community Council, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DC Ranch Community Council, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of DC Ranch Community Council, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DC Ranch Community Council, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited DC Ranch Community Council, Inc.'s December 31, 2020 financial statements, and our report dated June 4, 2021 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mansperger Patterson & McMullin, PLLC

Tempe, Arizona
June 6, 2022

DC RANCH COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2020)

	<u>2021</u>				<u>RESTATED</u>
	<u>OPERATING</u> <u>FUND</u>	<u>RESERVE</u> <u>FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>	<u>2020</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,755,211	\$ 1,773,913	\$ 5,981,195	\$ 9,510,319	\$ 5,956,579
Investments	-	247,593	-	247,593	-
Accounts and other receivables, net	17,561	-	-	17,561	145,378
Due from related parties	206,348	-	-	206,348	159,847
Prepaid expenses and other assets	45,525	-	-	45,525	31,860
Property and equipment, net	-	-	252,249	252,249	252,524
Operating lease right-of-use assets	321,727	-	-	321,727	431,346
Interfund balances	21,600	72,932	(94,532)	-	-
TOTAL ASSETS	<u>2,367,972</u>	<u>2,094,438</u>	<u>6,138,912</u>	<u>10,601,322</u>	<u>6,977,534</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts payable	55,603	3,543	-	59,146	52,448
Accrued expenses	148,004	-	-	148,004	160,256
Due to related parties	18,420	-	-	18,420	8,264
Deferred revenue	3,300	-	-	3,300	-
Prepaid assessments	89,252	-	-	89,252	71,230
Operating lease	321,727	-	-	321,727	431,346
	<u>636,306</u>	<u>3,543</u>	<u>-</u>	<u>639,849</u>	<u>723,544</u>
FUND BALANCES	<u>1,731,666</u>	<u>2,090,895</u>	<u>6,138,912</u>	<u>9,961,473</u>	<u>6,253,990</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,367,972</u>	<u>\$ 2,094,438</u>	<u>\$ 6,138,912</u>	<u>\$ 10,601,322</u>	<u>\$ 6,977,534</u>

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

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	2021				RESTATED 2020
	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL	TOTAL
REVENUES					
Community benefit fees	\$ 1,216,984	\$ 200,000	\$ 3,500,000	\$ 4,916,984	\$ 2,698,074
Residential assessments	1,429,174	244,236	24,000	1,697,410	1,685,788
Commercial assessments	605,280	-	-	605,280	605,280
Management fee	246,865	-	-	246,865	190,233
Event, club, and class registrations	35,641	-	-	35,641	24,049
Arts and education	20,643	-	-	20,643	7,269
Community garden	10,560	-	-	10,560	10,560
Community center rental	7,005	-	-	7,005	10,438
Advertising income	5,760	-	-	5,760	8,280
Interest income	459	2,005	1,916	4,380	20,956
Charitable events	484	-	-	484	3,940
Other fees and income	23,475	-	-	23,475	18,664
	<u>3,602,330</u>	<u>446,241</u>	<u>3,525,916</u>	<u>7,574,487</u>	<u>5,283,531</u>
EXPENSES					
Personnel expenses	2,208,889	-	-	2,208,889	2,158,015
Administrative	405,130	-	-	405,130	438,187
Employee relations and training	47,909	-	-	47,909	38,699
Events, clubs, classes	230,492	-	-	230,492	188,735
Charitable events	-	-	-	-	9,665
Communications and community engagement	81,994	-	-	81,994	73,610
Arts and education	37,044	-	-	37,044	19,810
Desert Camp Community Center	273,826	-	-	273,826	233,549
The Homestead Community Center	99,274	-	-	99,274	111,680
Major repairs and replacements	-	164,909	145,921	310,830	199,470
Seasonal decorations	60,558	-	-	60,558	62,266
Market Street Park/paths and trails	26,702	-	-	26,702	21,235
Depreciation expense	-	-	49,192	49,192	35,456
Insurance and taxes	35,164	-	-	35,164	25,297
Other expense	-	-	-	-	1,528
	<u>3,506,982</u>	<u>164,909</u>	<u>195,113</u>	<u>3,867,004</u>	<u>3,617,202</u>
EXCESS OF REVENUES OVER EXPENSES	95,348	281,332	3,330,803	3,707,483	1,666,329
FUND BALANCES, BEGINNING OF YEAR - RESTATED	<u>1,636,318</u>	<u>1,809,563</u>	<u>2,808,109</u>	<u>6,253,990</u>	<u>4,587,661</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,731,666</u>	<u>\$ 2,090,895</u>	<u>\$ 6,138,912</u>	<u>\$ 9,961,473</u>	<u>\$ 6,253,990</u>

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

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2020)

	<u>2021</u>				<u>RESTATED</u>
	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Excess of revenues over expenses	\$ 95,348	\$ 281,332	\$ 3,330,803	\$ 3,707,483	\$ 1,666,329
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:					
Bad debt expense net of recoveries	(487)	-	-	(487)	-
Depreciation	-	-	49,192	49,192	35,456
(Increase) decrease in:					
Accounts receivable	128,304	-	-	128,304	(117,394)
Prepaid expenses	(13,665)	-	-	(13,665)	(14,261)
Due from related party	(46,501)	-	-	(46,501)	(102,393)
Increase (decrease) in:					
Accounts payable and accrued expenses	12,449	3,543	(9,294)	6,698	(27,613)
Accrued expenses	(12,252)	-	-	(12,252)	50,147
Due to related party	10,156	-	-	10,156	(1,489)
Deferred revenue	3,300	-	-	3,300	(11,425)
Prepaid assessments	18,022	-	-	18,022	2,470
	<u>99,326</u>	<u>3,543</u>	<u>39,898</u>	<u>142,767</u>	<u>(186,502)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	194,674	284,875	3,370,701	3,850,250	1,479,827
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash paid for property and equipment	-	-	(48,917)	(48,917)	(81,706)
Purchases of investments	-	(250,000)	-	(250,000)	-
Redemptions of investments	-	2,407	-	2,407	-
	<u>-</u>	<u>2,407</u>	<u>-</u>	<u>2,407</u>	<u>-</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	-	(247,593)	(48,917)	(296,510)	(81,706)
CASH FLOWS FROM FINANCING ACTIVITIES					
Interfund transfers	(31,600)	(3,093)	34,693	-	-
	<u>(31,600)</u>	<u>(3,093)</u>	<u>34,693</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	163,074	34,189	3,356,477	3,553,740	1,398,121
CASH, BEGINNING OF YEAR	<u>1,592,137</u>	<u>1,739,724</u>	<u>2,624,718</u>	<u>5,956,579</u>	<u>4,558,458</u>
CASH, END OF YEAR	<u>\$ 1,755,211</u>	<u>\$ 1,773,913</u>	<u>\$ 5,981,195</u>	<u>\$ 9,510,319</u>	<u>\$ 5,956,579</u>
SUPPLEMENTARY CASH FLOW INFORMATION					
Cash used to pay income taxes	\$ 894	\$ -	\$ -	\$ 894	\$ 512

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

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

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

Nature of Organization

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

Basis of Accounting

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

Basis of Presentation

The Council's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Council maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

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

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

Cash and Cash Equivalents

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

Investments

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

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities, which represent financial instruments (none of which are held for trading purposes), approximate the carrying values of such amounts. At December 31, 2021 and 2020, all financial instruments are classified as Level I, (inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets) within the fair value hierarchy.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

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

Interest Income

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

Assessments Receivable

Council property owners are subject to annual assessments to provide for the Council's operating expenses and future repairs and improvements. Assessments receivable, as of December 31, 2021 and 2020, represent assessments due and other fees levied by the Council.

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

Income Taxes

The Council has received from the Internal Revenue Service an exemption from federal income taxes under Section 501(c)(4) of the Internal Revenue Code for exempt function income earned. A provision is made in the financial statements for income taxes on unrelated trade or business income earned, when required. The state tax rate that is applied to net taxable income is 5.5%. The Council had a federal and state tax liability of \$50 and \$894, respectively, for the years ended December 31, 2021 and 2020.

The Council accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Council recognizes tax positions only to the extent that Management believes it is "more likely than not" that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax position for the years ending December 31, 2021 and 2020.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

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

Property and Equipment

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

The Council reviews its property and equipment whenever events indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recorded when the sum of the future cash flows is materially less than the carrying amount of the asset. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. No impairment loss is recorded at December 31, 2021 and 2020.

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

Prepaid Assessments

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

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

Revenue Recognition

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

Subsequent Event

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

Management has evaluated subsequent events through June 6, 2022, the date the financial statements were available to be issued.

Reclassifications

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

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Assessments receivable	\$ 17,510	\$ 38,323
Benefit fees receivable	2,375	108,706
Other receivables	74	1,234
Less: Allowance for doubtful accounts	<u>(2,398)</u>	<u>(2,885)</u>
Assessments receivable, net	<u>\$ 17,561</u>	<u>\$ 145,378</u>

For the year ended December 31, 2021 and 2020, the Council had net bad debt expense/(recoveries) of (\$487) and (\$2,033), respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

NOTE 3 – REVENUE RECOGNITION

Residential and Commercial Assessments

The Council’s primary revenue source is generated through the levy of dues and assessments from property owners. The use of operational assessments is on maintenance and management of the common area property. The funding of operational assessments allows the Council to provide services to property owners. The Council’s assessments are based on the Council’s cost of service and are approved by the Council’s Board of Directors. The Council’s obligation to provide services to property owners generally represents a single performance obligation representing a series of distinct services that are substantially the same and have the same pattern of transfer to the member that is satisfied over time as property owners simultaneously receive and consume the benefits provided. The Council applies the inputs method based on resources consumed and labor hours incurred to measure its progress towards satisfactorily completing its performance obligations to transfer each distinct delivery of services to the property owners. Services provided are non-refundable and there are no return obligations. No significant remaining performance obligations exist as of December 31, 2021 and 2020. There is no variable pricing associated with services provided.

Community Council Benefit Fees

Community Council benefit fees are collected from the sale of residential and commercial property within the DC Ranch community based on a percentage of the gross sales price of the property. The percentage charged for residential and commercial property resales is ½ of 1%. During the years ended December 31, 2021 and 2020, the Council recorded \$4,716,984 and \$2,698,074, respectively, in community council benefit fee revenue, which represents approximately 65% and 51% of total revenue recorded, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Computers & Equipment	\$ 141,249	\$ 107,743
Furniture & Fixtures	28,459	28,459
Leasehold Improvements	408,633	393,509
Construction in Progress	7,849	7,562
Subtotal	<u>586,190</u>	<u>537,273</u>
Less: Accumulated Depreciation	<u>333,941</u>	<u>284,749</u>
Net Property and Equipment	<u>\$ 252,249</u>	<u>\$ 252,524</u>

Depreciation expense for the years ended December 31, 2021 and 2020 was \$49,192 and \$35,456, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

NOTE 5 – LEASING ACTIVITIES

The Council has operating leases of buildings and equipment. The Council assesses whether an arrangement qualifies as a lease (i.e. conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. The leases have remaining lease terms of 1 year to 3 years.

	<u>2021</u>	<u>2020</u>
Operating Leases		
Operating lease right-of-use assets	\$ <u>321,727</u>	\$ <u>431,346</u>
Operating lease liabilities - current	\$ 113,254	\$ 109,619
Operating lease liabilities - long-term	<u>208,473</u>	<u>321,727</u>
	\$ <u>321,727</u>	\$ <u>431,346</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31:

	<u>2021</u>	<u>2020</u>
Weighted Average Remaining Lease Term		
Operating leases	33 Months	44 Months
Weighted Average Discount Rate		
Operating leases	3.62%	3.63%

The maturities of lease liabilities as of December 31, 2021 were as follows:

Years ended December 31,	
2022	\$ 123,032
2023	122,033
2024	93,474
2025	-
2026	-
Thereafter	-
Total lease payments	<u>338,539</u>
Less: interest	<u>(16,812)</u>
	<u>\$ 321,727</u>

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

NOTE 5 – LEASING ACTIVITIES, (CONTINUED)

The following summarizes the line item in the income statements which include the components of lease expense for the year ended December 31:

	2021	2020
Operating lease expense included in general and administrative expenses	\$ <u>122,355</u>	\$ <u>146,808</u>

NOTE 6 – CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Council to concentration of credit risk consist principally of cash and accounts receivable. The Council maintains cash balances at financial institutions. Accounts in the institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times, deposits with these financial institutions, designated as cash, cash equivalents and investments, may exceed insurance coverage provided by the FDIC. As of December 31, 2021 and 2020, the Council had approximately \$377,000 and \$1,153,000, respectively, in deposits in excess of FDIC coverage.

Concentrations of credit risk with respect to accounts receivables are limited due to the large number of property owners comprising the Council’s member base and the Council’s ability to place liens on member lots. As of December 31, 2021 and 2020, the Council had no significant concentration of credit risk.

NOTE 7 – RELATED PARTY TRANSACTIONS

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

The office space is leased by the DC Ranch Community Council and sub-leased to the DC Ranch Association and The Covenant Commission. The cost sharing agreement states that each party shall share based on allocated space in the monthly lease agreement. For the year ended December 31, 2021, DC Ranch Association’s share was approximately \$55,00 and The Covenant Commissions’ share was approximately \$4,500.

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, 2021 and 2020, the Council allocated approximately \$285,000 and \$275,000, respectively, of payroll costs to the Association, and the Association allocated approximately \$215,000 and \$182,000, respectively, of payroll costs to the Council.

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

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

NOTE 7 – RELATED PARTY TRANSACTIONS, (CONTINUED)

Related party receivables consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Due from DC Ranch Association	\$ 204,583	\$ 153,637
Due from Covenant Commission	1,765	6,210
	<u>\$ 206,348</u>	<u>\$ 159,847</u>

Related party payables consisted of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Due to DC Ranch Association	\$ 18,420	\$ 8,264
Due to Covenant Commission	-	-
	<u>\$ 18,420</u>	<u>\$ 8,264</u>

NOTE 8 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Council’s governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$2,090,895 at December 31, 2021, were held in separate accounts and are generally not available for expenditures for normal operations.

In 2021, Community Council staff engaged NorthStar Reserves to conduct an off-site review of the current reserve study to estimate remaining useful lives and replacement costs of the common property components. In addition, Community Council staff regularly assess and update reserve information, including but not limited to, replacement/repair items, replacement costs, useful lives and anticipated date of replacement/repairs.

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

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 \$38,000 and \$30,000, respectively, for the years ended December 31, 2021 and 2020.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2020)

NOTE 10 – CONTINGENCIES

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

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLES

As a result of implementing new accounting standards for leases in the financial statements of lessees, the Council is recording right-of-use assets and related operating leases. Based on applying the standard, retained earnings at December 31, 2019 were restated by \$18,828. Additionally, the 2020 comparative statement have been restated to include right-of-use assets of \$431,346 and operating leases of \$431,346 on the balance sheet.



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

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of

DC RANCH COMMUNITY COUNCIL, INC.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information about future repairs and replacements on page 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mansperger Patterson & McMullin, PLC

Tempe, Arizona
June 6, 2022

DC RANCH COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2021

FUTURE MAJOR REPAIRS AND REPLACEMENTS

In 2021, Community Council staff engaged NorthStar Reserves to conduct an off-site review of the current reserve study to estimate remaining useful lives and replacement costs of the common property components. Replacement costs were based on the estimated cost to repair or replace the common property components at the date of the study, using a 3.5% annual inflation rate and a .15% annual return on investments.

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

<u>Component</u>	<u>Estimated Remaining Life (In Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Fund Balance as of December 31, 2021</u>
Administrative office	0 to 6	\$ 116,200	-
Community garden	0 to 22	73,646	-
Desert camp	0 to 35	2,164,335	-
Homestead	0 to 29	2,119,810	-
Market street park	0 to 18	197,200	-
Paths and trails	0 to 28	271,950	-
Unallocated		2,500	2,090,895
Total		\$ 4,945,641	\$ 2,090,895

See Independent Auditors' Report
on Supplementary Information.