



DC RANCH COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2023 AND 2022
AND FOR THE YEARS THEN ENDED



www.ButlerHansen.com

DC RANCH COMMUNITY COUNCIL, INC.

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INDEPENDENT AUDITOR’S REPORT..... | 1 - 2 |
| FINANCIAL STATEMENTS | |
| Balance Sheet..... | 3 |
| Statement of Revenues, Expenses and Changes in Fund Balances..... | 4 - 5 |
| Statement of Cash Flows..... | 6 |
| Notes to Financial Statements..... | 7 - 19 |
| SUPPLEMENTARY INFORMATION | |
| Required Supplementary Information on Future Major Repairs and Replacements..... | 20 |

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. (an Arizona Corporation), which comprise the balance sheet as of December 31, 2023, 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.

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, 2023, 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 Responsibility 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 are considered material if there is a substantial likelihood that, individually or in 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 the DC Ranch Community Council's December 31, 2022 financial statements, and we expressed an unqualified opinion on those financial statements in our report dated April 17, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, 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 20, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, PLC

Gilbert, Arizona
April 18, 2024

DC RANCH COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2022)

| | <u>OPERATING FUND</u> | <u>RESERVE FUND</u> | <u>CAPITAL FUND</u> | <u>TOTAL 2023</u> | <u>TOTAL 2022</u> |
|---|---------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| <u>ASSETS</u> | | | | | |
| Cash and Cash Equivalents | \$ 1,824,954 | \$ 1,015,626 | \$ 3,000,016 | \$ 5,840,596 | \$ 3,245,450 |
| Certificates of Deposit and US Treasury Obligations | - | 1,550,830 | 4,977,784 | 6,528,614 | 7,832,597 |
| Accounts Receivable, Net of Allowance of of \$2,564 and \$1,804, 2023 and 2022, respectively | 2,629 | - | - | 2,629 | 1,062 |
| Commercial Assessments Receivable | 4,692 | - | - | 4,692 | 8,147 |
| Community Council Benefit Fees Receivable | 3,550 | - | - | 3,550 | 16,225 |
| Related Party Net Receivable - DC Ranch Association | 254,131 | - | - | 254,131 | 144,719 |
| Prepaid Expenses | 95,333 | - | - | 95,333 | 40,979 |
| Interest Receivable | - | 8,991 | - | 8,991 | 4,751 |
| Property and Equipment, Net | - | - | 122,781 | 122,781 | 151,551 |
| Operating Lease Right-of-Use Assets | 88,105 | - | - | 88,105 | 199,974 |
| Interfund Balances | 30,382 | 88,345 | (118,727) | - | - |
| TOTAL ASSETS | \$ 2,303,776 | \$ 2,663,792 | \$ 7,981,854 | \$ 12,949,422 | \$ 11,645,455 |
| <u>LIABILITIES AND FUND BALANCES</u> | | | | | |
| LIABILITIES | | | | | |
| Accounts Payable | \$ 77,221 | \$ - | \$ 19,107 | \$ 96,328 | \$ - |
| Accrued Expense | 204,570 | - | 142,732 | 347,302 | 226,944 |
| Accrued Operating Lease Payable | 7,762 | - | - | 7,762 | 15,514 |
| Prepaid Assessments | 102,593 | - | - | 102,593 | 67,630 |
| Deferred Revenue | 10,173 | - | - | 10,173 | 8,312 |
| Related Party Net Payable - Covenant Commission | 224 | - | - | 224 | 3,229 |
| Operating Lease Liability | 88,105 | - | - | 88,105 | 199,974 |
| TOTAL LIABILITIES | 490,648 | - | 161,839 | 652,487 | 521,603 |
| FUND BALANCES | | | | | |
| Operating Fund | 1,813,128 | - | - | 1,813,128 | 1,438,890 |
| Reserve Fund | - | 2,663,792 | - | 2,663,792 | 2,148,781 |
| Capital Fund | - | - | 7,820,015 | 7,820,015 | 7,536,181 |
| TOTAL FUND BALANCES | 1,813,128 | 2,663,792 | 7,820,015 | 12,296,935 | 11,123,852 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 2,303,776 | \$ 2,663,792 | \$ 7,981,854 | \$ 12,949,422 | \$ 11,645,455 |

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, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2022)

| | <u>OPERATING FUND</u> | <u>RESERVE FUND</u> | <u>CAPITAL FUND</u> | <u>TOTAL 2023</u> | <u>TOTAL 2022</u> |
|---|---------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| REVENUES | | | | | |
| ASSESSMENTS | | | | | |
| Residential Assessments | \$ 2,210,760 | \$ - | \$ - | \$ 2,210,760 | \$ 1,665,379 |
| Builder and Developer Assessments | 48,852 | - | - | 48,852 | 34,476 |
| Commercial Assessments | 803,160 | - | - | 803,160 | 605,280 |
| Community Council Benefit Fees | 2,545,082 | - | - | 2,545,082 | 2,822,212 |
| TOTAL ASSESSMENTS | <u>5,607,854</u> | <u>-</u> | <u>-</u> | <u>5,607,854</u> | <u>5,127,347</u> |
| PROGRAM REVENUE | | | | | |
| Community Celebration and Events | 18,118 | - | - | 18,118 | 19,720 |
| Community Programming | 69,857 | - | - | 69,857 | 62,185 |
| TOTAL PROGRAM REVENUE | <u>87,975</u> | <u>-</u> | <u>-</u> | <u>87,975</u> | <u>81,905</u> |
| FACILITIES REVENUE | | | | | |
| Community Center Rentals | 18,955 | - | - | 18,955 | 24,150 |
| Resident Access | 4,220 | - | - | 4,220 | 6,336 |
| TOTAL FACILITIES REVENUE | <u>23,175</u> | <u>-</u> | <u>-</u> | <u>23,175</u> | <u>30,486</u> |
| OTHER INCOME | | | | | |
| Shared-Cost Management Revenue - DC Ranch Association | 525,015 | - | - | 525,015 | 432,700 |
| Shared-Cost Management Revenue - Covenant Commission | 246,376 | - | - | 246,376 | 229,391 |
| Advertising Revenue | 360 | - | - | 360 | 5,760 |
| Interest Revenue | 71,708 | 85,812 | 319,071 | 476,591 | 118,781 |
| Insurance Claim Reimbursement | - | - | 8,698 | 8,698 | - |
| Other Income (CFD, Key Fobs, Miscellaneous) | 14,538 | - | - | 14,538 | 14,709 |
| TOTAL OTHER INCOME | <u>857,997</u> | <u>85,812</u> | <u>327,769</u> | <u>1,271,578</u> | <u>801,341</u> |
| TOTAL REVENUES | <u>6,577,001</u> | <u>85,812</u> | <u>327,769</u> | <u>6,990,582</u> | <u>6,041,079</u> |
| EXPENSES | | | | | |
| ADMINISTRATION EXPENSE | | | | | |
| Personnel Expenses | 2,673,690 | - | - | 2,673,690 | 2,366,008 |
| Administrative Expenses | 280,138 | - | - | 280,138 | 286,111 |
| Travel, Meetings, and Employee Relations | 58,504 | - | - | 58,504 | 65,126 |
| TOTAL ADMINISTRATION EXPENSE | <u>3,012,332</u> | <u>-</u> | <u>-</u> | <u>3,012,332</u> | <u>2,717,245</u> |
| PROGRAM EXPENSE | | | | | |
| Community Celebration and Events | 297,046 | - | - | 297,046 | 289,143 |
| Community Programming | 112,331 | - | - | 112,331 | 54,653 |
| Community Engagement | 39,968 | - | - | 39,968 | 30,187 |
| Communications and Public Affairs | 61,192 | - | - | 61,192 | 73,418 |
| TOTAL PROGRAM EXPENSE | <u>510,537</u> | <u>-</u> | <u>-</u> | <u>510,537</u> | <u>447,401</u> |

(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, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2022)

| | <u>OPERATING FUND</u> | <u>RESERVE FUND</u> | <u>CAPITAL FUND</u> | <u>TOTAL 2023</u> | <u>TOTAL 2022</u> |
|--|---------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| EXPENSES (CONTINUED) | | | | | |
| FACILITIES EXPENSE | | | | | |
| DC Ranch Facilities Expense | 212,565 | - | - | 212,565 | 187,946 |
| Desert Camp Community Center | 256,360 | - | - | 256,360 | 258,144 |
| The Homestead Community Center | 82,068 | - | - | 82,068 | 88,672 |
| Market Street Park/Paths and Trails/Seasonal Décor | 95,053 | - | - | 95,053 | 86,235 |
| TOTAL FACILITIES EXPENSE | <u>646,046</u> | <u>-</u> | <u>-</u> | <u>646,046</u> | <u>620,997</u> |
| GENERAL EXPENSE | | | | | |
| Insurance and Taxes | 83,430 | - | - | 83,430 | 63,953 |
| Management Fee - DC Ranch Association Shared Cost | 377,942 | - | - | 377,942 | 360,333 |
| Depreciation | - | - | 48,053 | 48,053 | 51,267 |
| Loss on Disposal of Assets | - | - | - | - | 71,663 |
| Other General Expense | 24,760 | - | - | 24,760 | 8,777 |
| TOTAL GENERAL EXPENSE | <u>486,132</u> | <u>-</u> | <u>48,053</u> | <u>534,185</u> | <u>555,993</u> |
| RESERVE FUND EXPENDITURES | <u>-</u> | <u>106,089</u> | <u>-</u> | <u>106,089</u> | <u>243,425</u> |
| CAPITAL FUND EXPENDITURES | <u>-</u> | <u>-</u> | <u>1,008,310</u> | <u>1,008,310</u> | <u>293,639</u> |
| TOTAL EXPENSES | <u>4,655,047</u> | <u>106,089</u> | <u>1,056,363</u> | <u>5,817,499</u> | <u>4,878,700</u> |
| EXCESS REVENUES (EXPENSES) | 1,921,954 | (20,277) | (728,594) | 1,173,083 | 1,162,379 |
| FUND BALANCES | | | | | |
| BEGINNING OF YEAR | <u>1,438,890</u> | <u>2,148,781</u> | <u>7,536,181</u> | <u>11,123,852</u> | <u>9,961,473</u> |
| TRANSFERS BETWEEN FUNDS | | | | | |
| Operating Fund Reserve Contributions | (547,716) | 547,716 | - | - | - |
| Operating Fund Capital Fund Contributions | (1,000,000) | - | 1,000,000 | - | - |
| Reserve Fund Capital Fund Contributions | - | (12,428) | 12,428 | - | - |
| TOTAL TRANSFERS BETWEEN FUNDS | <u>(1,547,716)</u> | <u>535,288</u> | <u>1,012,428</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES END OF YEAR | <u>\$ 1,813,128</u> | <u>\$ 2,663,792</u> | <u>\$ 7,820,015</u> | <u>\$ 12,296,935</u> | <u>\$ 11,123,852</u> |

See accompanying notes to the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2022)

| | <u>OPERATING FUND</u> | <u>RESERVE FUND</u> | <u>CAPITAL FUND</u> | <u>TOTAL 2023</u> | <u>TOTAL 2022</u> |
|---|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | | | | |
| Excess Revenues (Expenses) | \$ 1,921,954 | \$ (20,277) | \$ (728,594) | \$ 1,173,083 | \$ 1,162,379 |
| Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities | | | | | |
| Bad Debt Expense | 760 | - | - | 760 | (594) |
| Depreciation Expense | - | - | 48,053 | 48,053 | 51,267 |
| Loss on Disposal of Asset | - | - | - | - | 71,663 |
| (Increase)/Decrease In | | | | | |
| Accounts Receivable | (2,327) | - | - | (2,327) | 2 |
| Commercial Assessments Receivable | 3,455 | - | - | 3,455 | 6,569 |
| Community Council Benefit Fees Receivable | 12,675 | - | - | 12,675 | (13,850) |
| Related Party Net Receivable - Covenant Commission | - | - | - | - | 1,765 |
| Related Party Net Receivable - DC Ranch Association | (109,412) | - | - | (109,412) | 59,684 |
| Prepaid Expenses | (54,354) | - | - | (54,354) | 4,546 |
| Interest Receivable | - | (4,240) | - | (4,240) | (4,751) |
| Increase/(Decrease) In | | | | | |
| Accounts Payable | 77,221 | - | 19,107 | 96,328 | (59,146) |
| Accrued Expense | (22,374) | - | 142,732 | 120,358 | 98,815 |
| Accrued Operating Lease Payable | (7,752) | - | - | (7,752) | (4,361) |
| Prepaid Assessments | 34,963 | - | - | 34,963 | (21,622) |
| Deferred Revenue | 1,861 | - | - | 1,861 | 5,012 |
| Related Party Payable - Covenant Commission | (3,005) | - | - | (3,005) | 3,229 |
| Related Party Payable - DC Ranch Association | - | - | - | - | (18,420) |
| Net Cash Provided (Used) by Operating Activities | <u>1,853,665</u> | <u>(24,517)</u> | <u>(518,702)</u> | <u>1,310,446</u> | <u>1,342,187</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | | | | |
| Maturities of Certificates of Deposit | - | 525,000 | 6,562,000 | 7,087,000 | 2,999 |
| Reinvested Interest | - | - | - | - | (75,893) |
| Purchases of Investments | - | (611,798) | (5,171,219) | (5,783,017) | (7,509,111) |
| Construction-in-Process Converted to Fixed Assets | - | - | - | - | 7,849 |
| Purchase of Fixed Assets | - | - | (19,283) | (19,283) | (33,080) |
| Net Cash Provided (Used) by Investing Activities | <u>-</u> | <u>(86,798)</u> | <u>1,371,498</u> | <u>1,284,700</u> | <u>(7,607,236)</u> |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | | | | |
| Operating Fund Transfers to Reserve Fund | (547,716) | 547,716 | - | - | - |
| Operating Fund Transfers to Capital Fund | (1,000,000) | - | 1,000,000 | - | - |
| Reserve Fund Transfers to Capital Fund | - | (12,428) | 12,428 | - | - |
| Change in Interfund Balances | 10,168 | (11,744) | 1,576 | - | - |
| Net Cash Provided (Used) by Financing Activities | <u>(1,537,548)</u> | <u>523,544</u> | <u>1,014,004</u> | <u>-</u> | <u>-</u> |
| NET INCREASE (DECREASE) IN CASH | 316,117 | 412,229 | 1,866,800 | 2,595,146 | (6,264,869) |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>1,508,837</u> | <u>603,397</u> | <u>1,133,216</u> | <u>3,245,450</u> | <u>9,510,319</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 1,824,954</u> | <u>\$ 1,015,626</u> | <u>\$ 3,000,016</u> | <u>\$ 5,840,596</u> | <u>\$ 3,245,450</u> |
| <u>SUPPLEMENTARY INFORMATION</u> | | | | | |
| Income Taxes Paid | \$ 944 | \$ - | \$ - | \$ 944 | \$ 50 |
| Interest Paid | \$ - | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to the financial statements.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

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 Council provides services to 2,670 residential property owners, 59 builder/developer property owners, and 970 commercial property owners. 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, 2023, and 2022, represent assessments due and other fees levied by the Council. The Council’s assessments receivable is 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 Council 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. At December 31, 2023, and 2022, 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 FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

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 property owners 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, 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.

Revenue Recognition

Revenue is recognized when obligations under the terms of a contract with property owners or other DC Ranch entities 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 property owners; 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.

Interest Income

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

Certificates of Deposit and US Treasury Obligations

The Council invests in Certificates of Deposit and US Treasury Obligations that generally mature in five years or less. The Council intends to hold certificates of deposit until maturity.

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, community centers, and a park which can never be sold or subdivided.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Receivable

Council property owners are subject to annual assessments to provide for the Council's operating expenses, future capital acquisitions, and future repairs and improvements. Assessments receivable, as of December 31, 2023, and 2022, 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 on a routine basis, 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 property owners at the time of the assessment and may be secured by real property.

Prepaid Assessments

The annual budgets and assessments are approved by the Board of Directors. The Council receives assessments from property owners 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 not recognized as revenue and are presented as Prepaid Assessments until the corresponding assessment is made by the Council.

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 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.

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.

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, 2022 from which the summarized information was derived. While the summarized information in the current year financial statements from 2022 is not in conformance with generally accepted accounting principles, the December 31, 2022 financial statements were prepared in conformance with generally accepted accounting principles.

Date of Management's Review

Subsequent events have been evaluated through April 18, 2024, which is the date the financial statements were available to be issued.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at December 31, 2023 and 2022:

| | 2023 | 2022 |
|--|---------------|---------------|
| Residential Assessments Receivable | \$ 5,193 | \$ 2,866 |
| Commercial Assessments Receivable | 4,692 | 8,147 |
| Community Council Benefit Fee Receivable | 3,550 | 16,225 |
| Total Gross Receivables | 13,435 | 27,238 |
| Less: Reserve for Bad Debt | (2,564) | (1,804) |
| Total Net Receivables | \$ 10,871 | \$ 25,434 |

Total bad debt expense for the years ended December 31, 2023 and 2022, totaled \$760 and (\$594), respectively. Accounts receivable past due greater than 90 days at December 31, 2023 and 2022, totaled \$3,534 and \$1,367, respectively.

NOTE 4 - ASSESSMENT AND COMMUNITY COUNCIL BENEFIT FEE REVENUE

DC Ranch Community property owners are subject to annual assessments, billed on a periodic basis, to provide funds for the Council's operating expenses, future capital acquisitions, 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 property owners' assessments. The Council's policy is to retain legal counsel and place liens on the properties of property owners whose assessments are ninety 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, future capital acquisitions, and future major repairs and replacements. Each residential lot was assessed \$828 annually, billed on an installment basis at \$69 a month. The revenue for residential assessments in 2023 and 2022 was \$2,210,760 and \$1,665,379, respectively, which represent approximately 32% and 28%, respectively, of total revenue recorded.

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 \$803,160 and \$605,280 for 2023 and 2022, respectively, which represent 12% and 10%, respectively, of total revenue recorded. 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 assessment rates. For the years ended December 31, 2023 and 2022, the Council billed assessments to builders and developers in the amount of \$48,852 and \$34,476, respectively.

At December 31, 2023 and 2022, the Council had delinquent assessments of \$9,122 and \$11,013, respectively. It is the opinion of the Board of Directors that the Council will ultimately prevail against the majority of the property owners with delinquent assessments.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 4 - ASSESSMENT AND COMMUNITY COUNCIL BENEFIT FEE REVENUE (CONTINUED)

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 ended December 31, 2023, are \$11,013 and \$9,122, respectively.

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, 2023 and 2022, the Council recorded \$2,545,082 and \$2,822,212, respectively, in Community Council Benefit Fee revenue, which represent approximately 36% and 47%, respectively, of total revenue recorded.

NOTE 5 - INVESTMENTS

The Council invests in Certificates of Deposit and US Treasury obligations. At December 31, 2023, and 2022, it held \$6,517,817 and \$7,832,597, respectively, in held-to-maturity investments. The interest rates for the Certificates of Deposit range from 0.90% to 5.15% and the interest rates for the US Treasury obligations range from 1.50% to 5.10%. The held-to-maturity debt securities are reported at their amortized cost basis.

At December 31, 2023 and 2022, 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. In the years ended December 31, 2023, and 2022, unrealized gross losses on the investments were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Council does not intend to sell the investments and it is not more likely than not that the Council will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Council does not consider those investments to be other-than-temporarily impaired at December 31, 2023, and 2022.

Held to maturity investments consisted of the following at December 31, 2023 and 2022:

| | 2023 | 2022 |
|---------------------------|--------------|--------------|
| U.S. Treasury Obligations | \$ 5,853,614 | \$ 7,582,597 |
| Certificates of Deposit | 675,000 | 250,000 |
| Total Investments | \$ 6,528,614 | \$ 7,832,597 |

Investments for Year Ended December 31, 2023

The amortized cost basis, gross unrealized gains, gross unrealized losses, and fair value of the investments at December 31, 2023, are as follows:

| | Amortized Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|-----------------------------------|-------------------------|------------------------------|-------------------------------|--------------|
| December 31, 2023 | | | | |
| US Treasury Obligations | \$ 5,853,614 | \$ 1,803 | \$ (7,575) | \$ 5,847,842 |
| Certificates of Deposit | 675,000 | 410 | (22,952) | 652,458 |
| Total held-to-maturity securities | \$ 6,528,614 | \$ 2,213 | \$ (30,527) | \$ 6,500,300 |

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 5 - INVESTMENTS (CONTINUED)

The amortized cost basis and fair value of held-to-maturity debt securities at December 31, 2023, by contractual maturity, are as follows:

| | Amortized | |
|---------------------------------------|---------------------|---------------------|
| | Cost | Fair Value |
| Due in one year or less | \$ 5,503,141 | \$ 5,500,269 |
| Due after one year through five years | \$ 1,025,473 | 1,000,031 |
| Total held-to-maturity securities | <u>\$ 6,528,614</u> | <u>\$ 6,500,300</u> |

The fair value, gross unrealized losses, and amortized cost basis for the US Treasury Obligations and Certificate of Deposit, which does not include the \$51 unrealized gain for the US Treasury Obligations maturing in less than 12 months at December 31, 2023, are as follows:

| | <u>Less than 12 months</u> | | <u>12 months or more</u> | | <u>Total</u> | |
|-----------------------------------|----------------------------|----------------------|--------------------------|----------------------|---------------------|----------------------|
| | Gross | | Gross | | Gross | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2023 | | | | | | |
| US Treasury Obligations | \$ 5,500,269 | \$ (3,523) | \$ 347,573 | \$ (4,052) | \$ 5,847,842 | \$ (7,575) |
| Certificates of Deposit | - | - | 652,458 | (22,952) | 652,458 | (22,952) |
| Total held-to-maturity securities | <u>\$ 5,500,269</u> | <u>\$ (3,523)</u> | <u>\$ 1,000,031</u> | <u>\$ (27,004)</u> | <u>\$ 6,500,300</u> | <u>\$ (30,527)</u> |

Investments for Year Ended December 31, 2022

The amortized cost basis, gross unrealized gains, gross unrealized losses, and fair value of the investments at December 31, 2022, are as follows:

| | Amortized | Gross | Gross | Fair Value |
|-----------------------------------|---------------------|---------------------|----------------------|---------------------|
| | Cost Basis | Unrealized Gains | Unrealized Losses | |
| December 31, 2022 | | | | |
| US Treasury Obligations | \$ 7,582,597 | \$ 206 | \$ (46,443) | \$ 7,536,360 |
| Certificates of Deposit | 250,000 | - | (29,497) | 220,503 |
| Total held-to-maturity securities | <u>\$ 7,832,597</u> | <u>\$ 206</u> | <u>\$ (75,940)</u> | <u>\$ 7,756,863</u> |

The amortized cost basis and fair value of held-to-maturity debt securities at December 31, 2022, by contractual maturity, are as follows:

| | Amortized | |
|---------------------------------------|---------------------|---------------------|
| | Cost | Fair Value |
| Due in one year or less | \$ 6,888,098 | \$ 6,855,680 |
| Due after one year through five years | 944,499 | 901,183 |
| Total held-to-maturity securities | <u>\$ 7,832,597</u> | <u>\$ 7,756,863</u> |

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 5 - INVESTMENTS (CONTINUED)

The fair value, gross unrealized losses, and amortized cost basis for the US Treasury Obligations and Certificate of Deposit, which does not include the \$206 unrealized gain for the US Treasury Obligations maturing in less than 12 months, are as follows:

| | Less than 12 months | | 12 months or more | | Total | |
|-----------------------------------|---------------------|----------------------|-------------------|----------------------|---------------------|----------------------|
| | Gross | | Gross | | Gross | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| December 31, 2022 | | | | | | |
| US Treasury Obligations | \$ 6,855,680 | \$ (32,623) | \$ 680,679 | \$ (13,820) | \$ 7,536,360 | \$ (46,443) |
| Certificates of Deposit | - | - | 220,503 | (29,497) | 220,503 | (29,497) |
| Total held-to-maturity securities | <u>\$ 6,855,680</u> | <u>\$ (32,623)</u> | <u>\$ 901,182</u> | <u>\$ (43,317)</u> | <u>\$ 7,756,863</u> | <u>\$ (75,940)</u> |

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Council's primary source of revenue is property owner assessments and community council benefit fees, which are earned on assessable lots or parcels located within a small geographic area. Assessments, community council 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. Assessments may be secured by liens upon a property owner's property or legal judgements. The Council monitors the collectability of these receivables and pursues collection as needed. Should collection efforts be unsuccessful, the Council could incur losses up to the full amount due. Management assesses the collectability of these receivables on a monthly basis and provides for an allowance for doubtful accounts.

The Residential Assessment revenue of \$2,210,760 and \$1,665,379 in 2023 and 2022, was 32% and 28%, respectively, of total revenue. Commercial Assessment revenue of \$803,160 in 2023 was 12% of revenue and \$605,280 in 2022 was 10% of total revenue. The Community Council Benefit Fee revenue of \$2,545,082 and \$2,822,212 in 2023 and 2022, were 36% and 47%, respectively, of total revenue.

The Council places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. The Association also maintains investment accounts in a brokerage account, which are covered up to \$500,000, limited to \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). At various times, deposits with these financial institutions, designated as cash and cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC), 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. For the year ended December 31, 2023, the federal and state tax liabilities have not been accrued and based on historical liabilities, are not expected to have a material impact on the financial statements. For the year ended December 31, 2022, the Council had federal and state tax liabilities of \$768 and \$176, respectively.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

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, 2023 and 2022.

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, 2023 and 2022.

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 2021, or by Arizona state tax authorities for years before 2020.

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, 2023 and 2022, the Council had recorded accrued vacation of \$84,921 and \$65,003, 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. Accrued sick leave is not paid out to employees at the time of termination.

NOTE 10 - DEFINED-CONTRIBUTION RETIREMENT PLAN

Employees may participate in a 401(k) defined-contribution retirement plan after 90 days of employment. Under the current plan, the Council contributes a 100% match of the employee’s first 3% contribution and then a 50% match of the employee’s contribution between 3% to 5%, for a maximum matching contribution of 4% for an employee’s 5% contribution. For the years ended December 31, 2023 and 2022, the Council made matching contributions to the plan of approximately \$57,216 and \$49,831, respectively.

NOTE 11 - PROPERTY AND EQUIPMENT

Depreciable property and equipment in use as of December 31, 2023 and 2022 consisted of the following:

| | 2023 | 2022 |
|--------------------------------|------------|------------|
| Vehicles and Equipment | \$ 184,144 | \$ 164,860 |
| Furniture and Fixtures | 28,459 | 28,459 |
| Leasehold Improvements | 271,590 | 271,590 |
| Total Assets | 484,193 | 464,909 |
| Less: Accumulated Depreciation | (361,412) | (313,358) |
| Net Property and Equipment | \$ 122,781 | \$ 151,551 |

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 11 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense for the years ended December 31, 2023 and 2022, was \$48,053 and \$51,267, respectively. In the year ended December 31, 2023, the Council acquired equipment with a cost of \$19,283. In the year ended December 31, 2022, the Council disposed of equipment and leasehold improvements with acquisition costs of \$146,511 and accumulated depreciation of \$71,848, for a net loss of \$71,663, and acquired equipment with a cost of \$33,080.

NOTE 12 - OPERATING LEASE OBLIGATIONS

The Council leases various equipment and office space under operating lease agreements that expire at various dates through 2025. 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 or those that are considered immaterial are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. The future lease expense for reporting purposes does not include variable costs not tied to an index, such as office lease taxes, insurance, and CAM costs. The leases have remaining lease terms of 1 to 3 years.

In the year ended December 31, 2023, the Council recorded the office lease as a Right-to-Use Asset and Operating Lease Liability in the amount of \$88,105. In the year ended December 31, 2022, the Council recorded office and equipment operating leases as Right-to-Use Assets and Operating Lease Liability in the amount of \$199,974, respectively. The present value of the base rent has been amortized on a straight-line basis including the first two months of the lease for which the Council is not charged as long as the lease is not cancelled. The additional payments are variable and were not included as part of the minimum payments for the lease.

The Operating Lease right-of-use assets and related liabilities are:

| | 2023 | 2022 |
|---|------------------|-------------------|
| Operating Leases | | |
| Operating lease right-of-use assets | <u>\$ 88,105</u> | <u>\$ 199,974</u> |
| Operating lease liabilities - current | \$ 88,105 | \$ 111,869 |
| Operating lease liabilities - long-term | <u>-</u> | <u>88,105</u> |
| | <u>\$ 88,105</u> | <u>\$ 199,974</u> |

The following summarizes the weighted average remaining operating lease terms and discount rates as of December 31:

| | 2023 | 2022 |
|---------------------------------------|----------|-----------|
| Weighted Average Remaining Lease Term | | |
| Operating Leases | 9 months | 21 months |
| Weighted Average Discount Rate | | |
| Operating Leases | 3.00% | 3.62% |

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 12 - OPERATING LEASE OBLIGATIONS (CONTINUED)

The present value of the base operating lease payments at December 31, 2023 are as follows:

| | |
|--|------------------|
| <u>Year Ended</u> <u>December 31,</u> | |
| 2024 | <u>\$ 88,105</u> |
| Total | <u>\$ 88,105</u> |

The office space is leased by the Council, which shares this cost with the DC Ranch Association, Inc. (“Ranch) and The Covenant Commission (“Covenant”) under the terms of the annual cost-sharing agreement (See Note 13 – Cost-Sharing Agreement for Management Fee). The Council has recorded the Office Space Lease as a Right-to-Use Asset in the amounts of \$88,105 and \$199,974 and an Operating Lease Liability for the same amounts for the years ended December 31, 2023 and 2022, respectively. Total lease expense paid by the Council includes a base lease amount which escalates 3% each year and an additional amount for a storage unit, property taxes, property insurance, and CAM. If the Council cancels the lease, the Council is liable for the first two months of the lease for which no expense was initially charged.

Total recognized lease expense incurred by the Council for the years ended December 31, 2023, and 2022, was \$212,565 and \$187,516, respectively. The total lease expense is allocated between the three DC Ranch Community entities as follows for the years ended December 31, 2023 and 2022, respectively.

| | <u>2023</u> | <u>2022</u> |
|------------------------|-------------------|-------------------|
| DC Council | \$ 101,346 | \$ 88,263 |
| DC Ranch | 101,346 | 88,263 |
| Covenant Commission | <u>17,625</u> | <u>15,351</u> |
| Total Lease Payments | 220,317 | 191,877 |
| Less Amortized Expense | <u>(7,752)</u> | <u>(4,361)</u> |
| Total Office Lease | <u>\$ 212,565</u> | <u>\$ 187,516</u> |

NOTE 13 - COST-SHARING AGREEMENT FOR MANAGEMENT FEE

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 effective for the year ended December 31, 2023, the Council pays the Ranch, and the Ranch and the Covenant pay the Council a monthly net reimbursement fee approved by the Executive Directors of the Covenant and Ranch and President of the Covenant. 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.

For the year ended December 31, 2023, the gross shared-cost revenue and expenses are as follows:

| | <u>Shared-Cost Revenue</u> | | | | <u>Shared-Cost Expense</u> | | | <u>Net</u> |
|----------|----------------------------|-------------------|----------------------|---------------------|----------------------------|--------------------------|----------------------|-------------|
| | <u>From Council</u> | <u>From Ranch</u> | <u>From Covenant</u> | <u>Total</u> | <u>Incurred by Council</u> | <u>Incurred by Ranch</u> | <u>Total</u> | |
| Council | \$ - | \$ 525,015 | \$ 246,376 | \$ 771,392 | \$ - | \$ (377,942) | \$ (377,942) | \$ 393,449 |
| Ranch | 377,942 | - | 4,557 | 382,499 | (525,015) | - | (525,015) | (142,516) |
| Covenant | - | - | - | - | (246,376) | (4,557) | (250,933) | (250,933) |
| Total | <u>\$ 377,942</u> | <u>\$ 525,015</u> | <u>\$ 250,933</u> | <u>\$ 1,153,891</u> | <u>\$(771,391)</u> | <u>\$(382,499)</u> | <u>\$(1,153,891)</u> | <u>\$ -</u> |

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 13 - COST-SHARING AGREEMENT FOR MANAGEMENT FEE (CONTINUED)

For the year ended December 31, 2022, the gross shared-cost revenue and expenses are as follows:

| | Shared-Cost Revenue | | | | Shared-Cost Expense | | | Net |
|----------|---------------------|-------------------|-------------------|--------------------|---------------------|---------------------|-----------------------|-------------|
| | From Council | From Ranch | From Covenant | Total | Incurred by Council | Incurred by Ranch | Total | |
| Council | \$ - | \$ 432,700 | \$ 229,391 | \$ 662,091 | \$ - | \$ (360,333) | \$ (360,333) | \$ 301,758 |
| Ranch | 360,333 | - | 5,940 | 366,273 | (432,700) | - | (432,700) | (66,427) |
| Covenant | - | - | - | - | (229,391) | (5,940) | (235,331) | (235,331) |
| Total | <u>\$ 360,333</u> | <u>\$ 432,700</u> | <u>\$ 235,331</u> | <u>\$1,028,364</u> | <u>\$ (662,091)</u> | <u>\$ (366,273)</u> | <u>\$ (1,028,364)</u> | <u>\$ -</u> |

Although the three DC Ranch Community entities bill each other on a net basis for convenience purposes, the gross allocations for revenues and expenses are being reported in the financial statements. For the years ended December 31, 2023, and 2022, the gross and net shared-cost revenue, expenses and net billings for the Council are as follows:

| | 2023 | 2022 |
|--------------------------|-------------------|-------------------|
| Revenue from DC Ranch | \$ 525,015 | \$ 432,700 |
| Less Expense to DC Ranch | (377,942) | (360,333) |
| Net billed Ranch/Council | 147,073 | 72,367 |
| Revenue from Covenant | 246,376 | 229,391 |
| Total Net Billings | <u>\$ 393,449</u> | <u>\$ 301,758</u> |

The largest shared expense relates to the payroll and benefits of employees shared between the Council and the Ranch. The Council and the Ranch use their own payroll providers to pay their employees, then allocate the costs based on the cost sharing agreement. For the years ended December 31, 2023 and 2022, the Council allocated approximately \$377,248 and \$296,528, respectively, of payroll costs to the Ranch and \$223,161 and \$207,998, respectively to the Covenant. For the years ended December 31, 2023 and 2022, the Ranch allocated approximately \$255,428 and \$244,504, respectively, of payroll costs to the Council. Because the percentage of payroll reimbursements in the Cost Sharing Agreements change each year, these payroll costs may not be directly comparable.

The Council has delegated the responsibility for the collection of its assessments to the Ranch Association. As a result, the Ranch acts as an agent between the Council and the property owners and builders paying assessments. The funds collected by the Ranch are subsequently transferred to the Council each month.

NOTE 14 - COST-SHARING REVENUE RECOGNITION

The Council recognizes revenue it earns through the cost-sharing agreements from other DC Ranch entities to be compensated for the operating expenses it incurs to maintain and preserve the community. As described in more detail in Note 13 - Cost-Sharing Agreement for Management Fee, the three organizations shared certain costs for which they are compensated. The three entities bill each other monthly on a net basis based on the annual budget, which is reconciled to actual expense after year end. The cost-sharing revenue is recognized as the related performance obligation is satisfied for transaction amounts expected to be collected. The Council's performance obligation related to cost-sharing revenue, 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 the Ranch and Covenant. Under the cost-sharing agreement no additional fees above the actual costs are billed to the other organizations. Therefore, there are no excess cost-sharing revenues at year end.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 15 - RELATED PARTY TRANSACTIONS

DC Ranch Community Council (the “Council”), DC Ranch Association (the “Ranch”) and DC Ranch Covenant Commission (the “Covenant”), comprise the principle components of the “Property” known as DC Ranch. During the course of the year, through a cost sharing agreement described in Note 13 – Cost-Sharing for Management Fee, the Council recognized revenue and expense related to the cost-sharing agreement.

For the year ended December 31, 2023, the gross shared cost management fee revenue from DC Ranch was \$525,015 and the related shared-cost management fee was \$377,942, a net revenue amount of \$147,073 which is described in more detail in Note 13 - Cost-Sharing Agreement for Management Fee. For the year ended December 31, 2022, the gross shared cost management fee revenue from DC Ranch was \$432,700 and the related shared-cost management fee was \$360,333, a net revenue amount of \$72,367, which is described in more detail in Note 13 - Cost-Sharing Agreement for Management Fee.

At December 31, 2023, and 2022, the Council had receivable balances from DC Ranch of \$254,131 and \$144,719, respectively. At December 31, 2023, the Council owed the Covenant Commission \$224 and at December 31, 2022, the Council owed the Covenant Commission \$3,229.

NOTE 16 - RESERVE FUND

The Council’s governing documents require funds to be accumulated for future major repairs and replacements. At December 31, 2023, funds accumulated for this purpose totaled \$2,663,792. 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. In February 2021, the Board engaged an independent firm to audit the assumptions underlying the Council’s estimate of replacement costs, useful lives, anticipated date of replacement/repairs, and inflation and contribution rates.

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, levy special assessments, or delay major repairs and replacements until funds are available.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

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

NOTE 18 – DESERT CAMP SITE IMPROVEMENT PROJECT

The Council is renovating the Desert Camp Community Center through the Desert Camp Site Improvement Project (DCSIP), which includes an expanded fitness center, a dedicated fitness studio, preservation of important viewpoints, and a resident gathering space. The total square footage of the center will increase from 7,362 square feet to 15,107 square feet and is estimated to cost between \$9.7 Million and \$10.5 Million. The project is being funded by Community Council benefit fees with a \$2.5 Million construction line of credit in place for temporary funding. DCSIP is scheduled to be completed in the Winter of 2024. Costs incurred in the year ended December 31, 2023, were \$949,423.

DC RANCH COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2022)

NOTE 19 – SUBSEQUENT EVENTS

In the year ended December 31, 2023, the Council renewed a \$500,000 line of credit, which expired April 28, 2024. The interest rate is variable and based on an index rate as defined in the Promissory Note. The Council did not utilize this Line of Credit in the year ended December 31, 2023.

The Council entered into a Promissory Note Agreement on January 12, 2024. The Line of Credit can be utilized for the initial 15 months of the loan term (Draw Period). The interest rate is variable and based on an index rate as defined in the Promissory Note.



**DC RANCH COMMUNITY COUNCIL,
INC.**

REQUIRED
SUPPLEMENTARY
INFORMATION



DC RANCH COMMUNITY COUNCIL, INC.
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2023

In 2023, the Council's paid staff conducted a study to estimate the replacement costs of certain common property components, for which the underlying assumptions were audited by a third-party in February 2021. The study was completed in 2023. 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 were increased for 2023 using an inflation rate of 3.5%.

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, 2023</u> |
|-----------------------------------|---|---|--|---|
| Administrative Office | 3 to 20 | \$ 163,700 | \$ 195,447 | \$ - |
| Desert Camp | 0 to 33 | 2,126,111 | 2,720,186 | - |
| Homestead | 0 to 27 | 2,070,691 | 3,564,368 | - |
| Market Street Park | 0 to 16 | 192,200 | 212,454 | - |
| North and South Pickleball Courts | 4 | 4,224 | 4,848 | - |
| Paths and Trails | 0 to 26 | 271,950 | 419,197 | - |
| Totals | | <u>\$ 4,828,876</u> | <u>\$ 7,116,500</u> | <u>\$ 2,663,792</u> |

See independent auditor's report.