



**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**

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



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THE GAINNEY RANCH COMMUNITY ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Gainey Ranch Community Association

Opinion

We have audited the accompanying financial statements of The Gainey Ranch Community Association (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 The Gainey Ranch Community Association 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 The Gainey Ranch Community Association 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 The Gainey Ranch Community Association'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 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 The Gainey Ranch Community Association'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 The Gainey Ranch Community Association'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.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of functional expenses, on page 16, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly we do not express an opinion or provide any assurance on it.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property, on page 15, be presented to supplement the basic financial statements. Such information 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
May 24, 2024

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2023**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>
ASSETS				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 390,807	\$ 204,036	\$ 154,367	\$ 749,210
Certificates of Deposit	-	150,000	300,000	450,000
Accounts Receivable, Net of Allowance of \$1,000	77,082	-	19,013	96,095
Inventory - Security	21,545	-	-	21,545
Prepaid Expenses	48,026	-	-	48,026
Accrued Interest Income	-	659	1,318	1,977
Interfund Balance	28,353	(28,903)	550	-
TOTAL CURRENT ASSETS	565,813	325,792	475,248	1,366,853
<u>OTHER ASSETS</u>				
Property and Equipment, Net of Accumulated Depreciation of \$2,183,292	6,419,347	-	-	6,419,347
TOTAL OTHER ASSETS	6,419,347	-	-	6,419,347
TOTAL ASSETS	\$ 6,985,160	\$ 325,792	\$ 475,248	\$ 7,786,200
LIABILITIES AND FUND BALANCES				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 115,528	\$ 19,565	\$ -	\$ 135,093
Accrued Expenses	17,430	-	-	17,430
Accrued Payroll and Related Liabilities	174,514	-	-	174,514
Accrued Interest Expense	-	-	20,793	20,793
Prepaid Assessments	87,640	-	-	87,640
Due To/From Satellites	33,949	-	-	33,949
Deferred Income - Building Rental	200	-	-	200
CIT Loan, Current Portion	-	-	256,320	256,320
TOTAL CURRENT LIABILITIES	429,261	19,565	277,113	725,939
<u>LONG-TERM LIABILITIES</u>				
CIT Loan, Long-Term Portion	-	-	5,633,198	5,633,198
TOTAL LONG-TERM LIABILITIES	-	-	5,633,198	5,633,198
Total Liabilities	429,261	19,565	5,910,311	6,359,137
<u>FUND BALANCES</u>				
Operating Fund	6,555,899	-	-	6,555,899
Reserve Fund	-	306,227	-	306,227
Capital Fund	-	-	(5,435,063)	(5,435,063)
Total Fund Balances	6,555,899	306,227	(5,435,063)	1,427,063
Total Liabilities and Fund Balances	\$ 6,985,160	\$ 325,792	\$ 475,248	\$ 7,786,200

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
REVENUES				
Homeowner Assessments	\$ 3,413,388	\$ 188,411	\$ 173,880	\$ 3,775,679
Commercial Assessments	545,887	24,179	58,464	628,530
Community Enhancement Fee	-	-	569,257	569,257
Late Fees and Transfer Fees	17,520	-	-	17,520
Architectural Fees	3,290	-	-	3,290
Rental Income	4,551	-	-	4,551
Other Income	19,937	-	-	19,937
Estate Club Membership, Fees and Sales	206,778	-	-	206,778
Insurance Claim Income	-	29,050	-	29,050
Interest Income	829	1,583	3,063	5,475
TOTAL REVENUES	4,212,180	243,223	804,664	5,260,067
EXPENSES				
Administration	2,666,452	-	249,535	2,915,987
Security	795,149	-	-	795,149
Estate Club	1,179,346	-	-	1,179,346
Landscape Maintenance	1,669,408	-	-	1,669,408
Less: Allocation	(1,669,593)	-	-	(1,669,593)
Building Maintenance	374,474	-	-	374,474
Less: Allocation	(374,477)	-	-	(374,477)
Major Repairs and Replacements	-	163,026	-	163,026
Capital Fund Expenses	-	-	122,767	122,767
TOTAL EXPENSES	4,640,759	163,026	372,302	5,176,087
EXCESS REVENUES (EXPENSES)	(428,579)	80,197	432,362	83,980
FUND BALANCES, BEGINNING OF YEAR	6,790,936	259,795	(5,707,648)	1,343,083
TRANSFERS BETWEEN FUNDS				
From Operating for Landscape Depreciation	(30,591)	30,591	-	-
To Operating for Fixed Asset Acquisition	74,133	(64,356)	(9,777)	-
Additional Transfers	150,000	-	(150,000)	-
TOTAL TRANSFERS BETWEEN FUNDS	193,542	(33,765)	(159,777)	-
FUND BALANCES, END OF YEAR	\$ 6,555,899	\$ 306,227	\$ (5,435,063)	\$ 1,427,063

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Excess Revenues (Expenses)	\$ (428,579)	\$ 80,197	\$ 432,362	\$ 83,980
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities				
Depreciation	374,188	-	-	374,188
(Increase)/Decrease In				
Accounts Receivable	(36,782)	-	(16,863)	(53,645)
Inventory - Security	10,106	-	-	10,106
Prepaid Expenses	(6,378)	-	-	(6,378)
Accrued Interest Income	-	(659)	(1,318)	(1,977)
Increase/(Decrease) In				
Accounts Payable	(1,052)	17,165	-	16,113
Accrued Expenses	(38,364)	-	-	(38,364)
Accrued Payroll and Related Liabilities	13,749	-	-	13,749
Accrued Interest Expense	-	-	(871)	(871)
Prepaid Assessments	(3,607)	-	-	(3,607)
Due To/From Satellites	(94,904)	-	-	(94,904)
Pass-Through - Prepaid Legend Wall Project	-	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>(211,623)</u>	<u>96,703</u>	<u>413,310</u>	<u>298,390</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchases of Certificates of Deposit	-	(150,000)	(300,000)	(450,000)
Purchases of Property and Equipment	(73,711)	-	-	(73,711)
Net Cash Provided (Used) by Investing Activities	<u>(73,711)</u>	<u>(150,000)</u>	<u>(300,000)</u>	<u>(523,711)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Payments on CIT Loan	-	-	(246,552)	(246,552)
Transfers for Landscape Depreciation	(30,591)	30,591	-	-
Transfers of Property and Equipment	74,133	(64,356)	(9,777)	-
Additional Transfers	150,000	-	(150,000)	-
Change in Interfund Balances	(27,646)	28,903	(1,257)	-
Net Cash Provided (Used) by Financing Activities	<u>165,896</u>	<u>(4,862)</u>	<u>(407,586)</u>	<u>(246,552)</u>
NET INCREASE (DECREASE) IN CASH	(119,438)	(58,159)	(294,276)	(471,873)
CASH BALANCE, BEGINNING OF YEAR	510,245	262,195	448,643	1,221,083
CASH BALANCE, END OF YEAR	<u>\$ 390,807</u>	<u>\$ 204,036</u>	<u>\$ 154,367</u>	<u>\$ 749,210</u>
<u>SUPPLEMENTARY INFORMATION</u>				
Income Taxes	\$ -	\$ -	\$ -	\$ -
Interest	\$ -	\$ -	\$ 249,535	\$ 249,535

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – NATURE OF THE ORGANIZATION

The Gainey Ranch Community Association (GRCA) is a nonprofit homeowners association incorporated December 13, 1984. GRCA provides for the operation, maintenance, and preservation of recreational, office, maintenance, and other facilities, as well as personal property and common areas, within the community of Gainey Ranch, located in Scottsdale, Arizona. The Association consists of 1,035 residential memberships and 348 commercial memberships.

GRCA is authorized and required by its governing documents to provide management, management support, and administrative and maintenance services to all Gainey Ranch satellite associations. The names of these 19 satellite associations are as follows:

- The Pavilions Council of Co-Owners
- Parcel 2 at Gainey Ranch Owners Association
- The Owners Association for The Legend at Gainey Ranch
- The Estates at Gainey Ranch Homeowners Association
- The Greens at Gainey Ranch Homeowners Association
- North Meadow at Gainey Ranch Homeowners Association
- North Meadow II at Gainey Ranch Homeowners Association
- Sunset Cove at Gainey Ranch Homeowners Association
- The Courts at Gainey Ranch Homeowners Association
- The Golf Cottages at Gainey Ranch Homeowners Association
- The Golf Villas at Gainey Ranch Homeowners Association
- The Enclave at Gainey Ranch Homeowners Association
- The Golf Villas at Gainey Ranch III Homeowners Association
- The Gainey Ranch Town Center Association
- 8989 Gainey Center Drive Condominium Association
- 7400 Gainey Club Drive Condominium Association
- The Oasis at Gainey Ranch Homeowners Association
- Vaquero Drive at Gainey Ranch Homeowners Association
- Arroyo Vista at Gainey Ranch Homeowners Association

As property manager, GRCA is also responsible for providing accounting services to the satellite associations. In the fulfillment of this responsibility, GRCA receives and processes all revenue belonging to each satellite association (including satellite assessments) and disburses all expenses incurred by each satellite association. Additionally, GRCA provides landscaping and building maintenance services for each satellite association. These services are charged to each satellite association on a non-profit basis as incurred. The intercompany financial status between each satellite association and GRCA is maintained by due to/due from balance sheet accounts. The intercompany transactions are settled monthly by cash transfers.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association'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 Association 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 Association.

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 use and accumulation of funds for capital improvements to the common areas of the Association.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers cash in operating bank accounts, money market accounts, cash on hand, and certificates of deposit, purchased with original maturities of three months or less, as cash and cash equivalents.

Accounts Receivable

The annual budget and member assessments are approved by the Board of Directors. Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and future replacements. Assessments receivable at December 31, 2023, represent fees due from unit owners. The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 30 days, at which time the Association pursues collection. Receivables are reviewed regularly and the Association establishes an allowance for doubtful accounts on receivables based on an estimate of accounts which will not be fully collected. Accounts are written-off when a homeowner enters bankruptcy or foreclosure. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Prepaid Assessments and Revenue Recognition

Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Association and are classified as Prepaid Assessments. 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.

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.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certificates of Deposit

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

Interest Earned

The board's policy is to allocate interest earned on all cash and investment accounts to each fund.

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.

Property and Equipment

The Association 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 members on the basis of usage.

At December 31, 2023, the common real property capitalized consisted of an administration building, maintenance building, and various other real property improvements.

Property not capitalized consists of land and landscape rights-of-way, the swimming pool and tennis courts. The Association capitalizes all personal property it acquires with a cost basis of \$1,500 or more. Purchased property and equipment is recorded at cost and depreciated utilizing the straight-line method over the useful lives of the property and equipment, generally ranging from 3 to 39 years.

Date of Management's Review

Subsequent events have been evaluated through May 24, 2024, which is the date the financial statements were available to be issued.

NOTE 3 – CASH AND RESTRICTED CASH

All cash listed, except for Reserve and Capital Fund accounts, is available for current operations and is not bound by any restriction or designation. Reserve Fund cash has been designated by the Board of Directors for use in funding future major repairs and replacements.

As of December 31, 2023, cash balances were as follows:

Petty Cash	\$	848
Operating Fund Accounts		389,959
Reserve Fund Accounts		204,036
Capital Accounts		154,278
Total Cash	\$	<u>749,210</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 – CERTIFICATES OF DEPOSIT

At December 31, 2023, the Corporation had \$450,000 in certificates of deposit, \$150,000 of which was reported in the Reserve Fund, and \$300,000 was reported in the Capital Fund. The certificates of deposit outstanding at December 31, 2023, mature in 2024, and earn interest at a rate of 5.00%.

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2023, represents assessments due, interest charged on overdue accounts, lien fees on delinquent accounts, and legal fees on accounts in default. Assessments not paid by the due date are charged a \$15 late fee and charged interest at the rate of 18% per annum after 60 days delinquency. The Association's policy is to place liens on units with accounts overdue 90 days. The Association may bring legal action against owners obligated to pay, or foreclose on the property as it deems necessary, to collect assessments receivable. For the year ended December 31, 2023, an allowance for doubtful accounts was recorded in the amount of \$1,000, and bad debt expense was \$0.

Receivables consisted of the following at December 31, 2023:

	<u>Total Due</u>	<u>Over 90 Days</u>
Accounts Receivable	\$ 78,082	\$ 7,504
Capital Fund Receivables	19,013	-
Total Gross Receivables	<u>97,095</u>	<u>7,504</u>
Less: Allowance for Doubtful Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Total Net Receivables	<u>\$ 96,095</u>	<u>\$ 6,504</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and Equipment as of December 31, 2023, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Buildings and Improvements	\$ 6,208,467	\$ 1,018,679	\$ 5,189,788
Furniture and Fixtures	773,192	225,028	548,164
Equipment	1,103,500	543,359	560,141
Office Equipment	3,193	3,193	-
Vehicles	436,890	322,797	114,093
Computer Systems and Upgrades	<u>77,397</u>	<u>70,236</u>	<u>7,161</u>
Total Property and Equipment	<u>\$ 8,602,639</u>	<u>\$ 2,183,292</u>	<u>\$ 6,419,347</u>

Depreciation expense for the year ended December 31, 2023 is \$374,188.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Association enters into various contracts for management, landscape and other services. Generally, all contracts are for one year terms and can be canceled by either party with 30 to 90 day notifications.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 – MEMBER ASSESSMENTS

Association members are subject to annual assessments, billed on a periodic basis, to provide funds for the Association's operating expenses and major repairs and replacements. The master association assessed 1,035 residential memberships and 348 commercial memberships for the current year. During 2023, the combined annual assessment for residential memberships was \$3,642.24, payable in monthly installments of \$303.52 with \$214.94 per month allocated to operations, \$59.41 allocated to security, \$15.17 designated to fund future major repairs and replacements and \$14 designated to fund future capital improvement expenditures.

The annual assessment for commercial members was \$1,806.12, payable in monthly installments of \$150.51 per month, with \$130.72 allocated to operations, \$5.79 designated to fund future major repairs and replacements and \$14 designated to fund future capital improvement expenditures. Since only residential members benefit from the Estate Club and Security services, commercial members are not assessed for these services.

Assessment revenue allocated to the operating and reserve funds is recognized as the related performance obligation is satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its 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 assessments from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. There is no maximum annual assessment defined in the Association's governing documents.

At December 31, 2023, the Association had delinquent accounts of \$78,082. It is the opinion of the Board of Directors that the Association will ultimately prevail against the majority of the homeowners with delinquent assessments.

The Association 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 Association's control. The balances of accounts receivable as of the beginning and end of the year are \$41,300 and \$78,082, respectively.

NOTE 9 – CONCENTRATION OF CREDIT RISK

The financial instruments that potentially subject the Association to credit risk consist principally of assessments and other receivables, the majority of which contain provisions for recovery by placing liens on real property and through legal judgments. In the event that the property owners and satellite associations did not comply with the terms of the Covenants, Conditions and Restrictions, Gainey Ranch Community Association could incur a loss equal to the amount due. The Association has net accounts receivable at December 31, 2023, totaling \$96,095, which are subject to a significant concentration of credit risk, given that the receivables are earned entirely within the homeowner association industry, and primarily from a small geographical area, which can be impacted by similar economic conditions. Member assessments may be secured by liens upon a member's property or legal judgements. The Association monitors the collectability of these receivables and pursues collection as needed. Should the Association's collection efforts be unsuccessful, the Association could incur losses up to the full amount due. Management routinely assesses the collectability of these receivables and provides for an allowance for doubtful accounts.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 9 – CONCENTRATION OF CREDIT RISK (CONTINUED)

The Association places its cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. Although the Board’s policy is to have all amounts covered by insurance, at various times, deposits designated as cash and cash equivalents and investments may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC).

NOTE 10 – INCOME TAXES

During the year ended December 31, 2020, the Association applied for tax exempt status under Internal Revenue Code Section 501 (a). The tax exempt status was approved on March 25, 2021, with an effective date of exemption of November 20, 2020. The Association is classified as an exempt “social welfare” organization under Internal Revenue Code Section 501 (c)(4) of the Internal Revenue Code. The Association is in the process of filing protective claims for income taxes paid in prior years. The amount of any potential refunds for prior years has not been recorded in the financial statements.

NOTE 11 – UNCERTAIN TAX POSITIONS

The Association accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Association 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 year ending December 31, 2023.

The Association 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 Association’s financial condition, net income or cash flows. Accordingly, the Association has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2023.

The Association is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Association 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 12 – COMMUNITY ENHANCEMENT FEE PERFORMANCE OBLIGATIONS

The Association collects Community Enhancement Fees from each owner upon becoming the owner of a lot. In accordance with FASB ASC 606, Revenue from Contracts with Customers, the Association recognizes related revenue when its performance obligation for these related services is satisfied. The performance obligation is satisfied when the home sale is complete. Revenue is recorded after the home closing is recorded. For the year ended December 31, 2023, the Association recognized \$569,257 in Community Enhancement Fee revenue.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 13 – CIT LOAN

On March 20, 2020, the Association entered into a Secured Promissory Note (also referred to as Line of Credit) with CIT BANK, N.A., successor by merger to Mutual of Omaha Bank, for a Line of Credit not to exceed \$6,500,000. With a portion of these funds, the Association paid a loan fee of \$16,250 and filing fees of \$200 and paid off the prior Loan and Security Agreement, dated April 25, 2014, obligation of \$1,161,367.71, with CIT BANK, N.A., successor by merger to Mutual of Omaha. Based on this payment, the prior Loan and Security Agreement obligations were satisfied, and the Association no longer has any obligations under this prior debt agreement dated April 15, 2014. After the various payments on the date of closing, March 20, 2020, the remaining available funds to the Association for the new Line of Credit was \$5,322,182.29.

The initial terms of the Line of Credit under the Secured Promissory Note, executed on March 20, 2020, funded construction of the new Gainey Ranch Estate Club, contingency costs, soft costs, closing costs and other related costs within the project. According to the initial terms of the Line of Credit agreement, funds would be available until March 1, 2021 (the draw period), for disbursement to the Association in one or more advances. Throughout the draw period, until and including April 1, 2021, the Association was obligated to pay interest-only payments to the lender at a rate of 4.10% of the outstanding balance. Beginning May 1, 2021, the Association would then begin making monthly principal and interest payments, which will be payable in 228 successive monthly payments.

On April 15, 2021, the Association and CIT BANK, N.A. modified the Secured Promissory Note terms to state that until and including May 1, 2021, on the 1st day of each calendar month, commencing with the first payment on May 1, 2021, interest only shall be payable monthly on the unpaid principal balance of the loan at the interest rate set forth in the loan agreement. After May 1, 2021, principal and interest due shall be payable by 227 successive monthly payments of principal and interest on the 1st day of the month, commencing with the first payment on June 1, 2021. The draw period for the remaining loan funds was also modified to state that the remaining loan funds will be available until May 1, 2021. CIT BANK, N.A. advanced the remaining loan balance of \$4,689,410 on April 21, 2021, and held the funds separately under the Bank's control until the construction draw requests were received from the Association, which occurred in 2022.

The principal and interest payments will be calculated based on the entire unpaid principal balance outstanding on May 1, 2021. The loan is collateralized by all money, accounts and deposit accounts of the Association and all rights of the Association to levy and collect regular and special assessments. The maturity date of the loan is April 1, 2040.

The CIT BANK, N.A. Secured Promissory Note balance at December 31, 2023, was \$5,889,518. The Association paid \$246,552 in principal payments in 2023. Total interest expense recorded in 2023 for this loan was \$249,535. Accrued interest on this loan at December 31, 2023, was \$20,793.

The classification of debt as of December 31, 2023, was as follows:

Total Debt	\$ 5,889,518
Less: Current Portion	<u>(256,320)</u>
Total Long-Term Debt	<u>\$ 5,633,198</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 13 – CIT LOAN (CONTINUED)

Minimum payments of debt are as follows:

<u>Years Ending December 31,</u>	
2024	\$ 256,320
2025	267,867
2026	279,217
2027	291,048
2028	302,822
Thereafter	<u>4,492,244</u>
Total future minimum payments	<u>\$ 5,889,518</u>

NOTE 14 – MAJOR REPAIR AND REPLACEMENT EXPENSES

In 2023, the following major repair and/or replacement expenses were paid from the reserve fund:

Building Repairs	\$ 14,680
Walkways/Paths	1,600
Streets/Parking	5,915
Lighting	2,653
Fencing/Walls	66,785
Sprinklers	4,076
Painting	1,200
Gates/Operators	39,247
Furniture	4,911
Tennis Courts	424
Landscape	18,277
Reserve Study	400
Computer	<u>2,858</u>
Total Major Repairs and Replacements	<u>\$ 163,026</u>

The Association is accumulating funds for future replacements and major repairs and maintenance. The annual provision to the reserve fund is determined by the Board of Directors and is based, in part, on projected reserve expenses derived in a study performed in 2022, by a licensed contractor who inspected the property. The study provides an estimate of the repair and replacement costs of buildings, improvements, equipment and common area infrastructure.

The Reserve Fund represents funds restricted by the Board of Directors to meet these anticipated expenses. The reserve fund has been accumulated from homeowner and commercial assessments and fees, specifically assessed for the purpose of funding the reserve fund, and from other net revenues.

Actual expenditures may vary from the estimated amounts determined by the study discussed above, and the variations may be material. Therefore, amounts to be accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, the Association may increase regular assessments up to the maximum annual assessment, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 14 – MAJOR REPAIR AND REPLACEMENT EXPENSES (CONTINUED)

At December 31, 2023, funds accumulated for this purpose were \$306,227. The activity for the Reserve Fund in the year ended December 31, 2023, is summarized as follows:

Beginning Balance, Reserve Fund	\$	259,795
Homeowner Assessments		188,411
Commercial Assessments		24,179
Insurance Claim Income		29,050
Interest Income		1,583
Less: Major Repairs and Replacement Expenditures		<u>(163,026)</u>
Excess Revenues (Expenses)		<u>80,197</u>
Fund Transfers		
Landscape Maintenance Asset Depreciation		30,591
Fixed Asset Acquisitions Transferred to Operating		<u>(64,356)</u>
Net Fund Transfers		<u>(33,765)</u>
Ending Balance, Reserve Fund	\$	<u>306,227</u>



**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**

SUPPLEMENTARY
INFORMATION



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**THE GAINNEY RANCH COMMUNITY ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2023**

Gainey Ranch Community Association had a reserve study conducted in 2022, which was dated January 1, 2023, by Facilities Advisors, Inc. The Association’s Board of Directors used this study as an aid in the development of a reserve strategy for the repair and replacement of components of common property. The study was useful in identifying the components which would need repair or replacement and in estimating their useful lives and replacement costs. The Board reviews every line item in these estimates, revises them on an annual basis, and incorporates them into goals and planning concerns of the Association as a whole. For the year ended December 31, 2023, the Board considered these elements and determined reserve fund requirements. Replacement costs were considered at “market” with no inflation factor being incorporated in the calculations. The amounts reported in the reserve fund are for demonstrative purposes only and were allocated based on the estimated current replacement cost.

The following table is based on the study prepared by Facilities Advisors, Inc. and presents significant information about the components of common property:

Component	Remaining Life (Years)	Estimated Future Replacement Cost	Replacement Fund Balance December 31, 2023
Administration/Common Areas	0 to 17	\$ 1,355,343	\$ 97,993
Security	0 to 24	541,481	39,809
Maintenance	0 to 20	814,210	64,308
Estate Club	0 to 33	1,985,554	104,117
Total		<u>\$ 4,696,588</u>	<u>\$ 306,227</u>

See independent auditor's report.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Administration	Security	Estate Club	Landscape Maintenance	Building Maintenance	Major Repairs	Capital Repairs	Total Expenses
Salaries and Wages	\$ 880,184	\$ 334,255	\$ 373,905	\$ 1,096,146	\$ 250,890	\$ -	\$ -	\$ 2,935,380
Payroll Taxes and Employee Related Expenses	184,383	43,581	48,662	126,736	45,715	-	-	449,077
Utilities and Telephone	117,089	98,410	91,344	106,352	19,828	-	-	433,023
Office Supplies and Expenses	25,315	2,743	11,505	11,284	31	-	-	50,878
Permits, Fees, Licenses and Taxes	2,172	-	1,600	3,348	413	-	-	7,533
Legal and Professional Services	64,761	-	-	-	-	-	-	64,761
Insurance	28,507	3,849	13,805	31,136	2,522	-	-	79,819
Interest Expense	-	-	-	-	-	-	249,535	249,535
Repairs and Maintenance - Facilities and Equipment	21,908	6,961	8,000	44,921	7,858	-	-	89,648
Repairs and Maintenance - Common Property	87,967	26,627	39,538	36,300	1,841	163,026	122,767	478,066
Outside Services	639,757	81,091	62,657	48,450	-	-	-	831,955
Plants, Trees, Etc.	41,305	8,716	12,456	3,529	-	-	-	66,006
Supplies	53,247	15,316	35,146	121,338	16,735	-	-	241,782
Equipment Rental and Lease	21,452	-	25,172	5,335	735	-	-	52,694
Other Administration	5,023	1,660	67,112	3,942	-	-	-	77,737
Total Expenses Before Depreciation and Maintenance Allocations	2,173,070	623,209	790,902	1,638,817	346,568	163,026	372,302	6,107,894
Depreciation	24,993	16,237	302,367	30,591	-	-	-	374,188
Landscape Maintenance Allocation	486,725	-	52,516	(1,641,687)	-	-	-	(1,102,446) (A)
Building Maintenance Allocation	132,218	5,149	33,561	-	(374,477)	-	-	(203,549) (A)
General and Administration Allocation	(150,554)	150,554	-	(27,906)	27,906	-	-	-
Total Expenses	\$ 2,666,452	\$ 795,149	\$ 1,179,346	\$ (185)	\$ (3)	\$ 163,026	\$ 372,302	\$ 5,176,087

(A) \$1,102,446 of landscape maintenance expenses and \$203,549 of building maintenance expenses were allocated to satellite associations.

See independent auditor's report.