



**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2025
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, 2025, 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, 2025, 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 27, 2026

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2025**

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
ASSETS				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 25,291	\$ 649,379	\$ 435,177	\$ 1,109,847
Certificates of Deposit	-	100,000	300,000	400,000
Accounts Receivable, Net of Allowance of \$3,400	102,642	-	23,738	126,380
Inventory - Security	51,260	-	-	51,260
Prepaid Expenses	63,503	-	-	63,503
Accrued Interest Income	-	554	1,714	2,268
TOTAL CURRENT ASSETS	242,696	749,933	760,629	1,753,258
<u>OTHER ASSETS</u>				
Property and Equipment, Net of Accumulated Depreciation of \$2,970,098	5,964,605	-	-	5,964,605
TOTAL OTHER ASSETS	5,964,605	-	-	5,964,605
TOTAL ASSETS	\$ 6,207,301	\$ 749,933	\$ 760,629	\$ 7,717,863
LIABILITIES AND FUND BALANCES				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 255,730	\$ -	\$ -	\$ 255,730
Accrued Expenses	24,912	-	-	24,912
Accrued Payroll and Related Liabilities	97,905	-	-	97,905
Accrued Interest Expense	-	-	20,687	20,687
Prepaid Assessments	67,579	-	-	67,579
Net Due To/(From) Satellites	(716)	-	-	(716)
Deferred Income - Building Rental	200	-	-	200
Bank Loan, Current Portion	-	-	279,217	279,217
TOTAL CURRENT LIABILITIES	445,610	-	299,904	745,514
<u>LONG-TERM LIABILITIES</u>				
Bank Loan, Long-Term Portion	-	-	5,086,153	5,086,153
TOTAL LONG-TERM LIABILITIES	-	-	5,086,153	5,086,153
Total Liabilities	445,610	-	5,386,057	5,831,667
<u>FUND BALANCES</u>				
Operating Fund	5,761,691	-	-	5,761,691
Reserve Fund	-	749,933	-	749,933
Capital Fund	-	-	(4,625,428)	(4,625,428)
Total Fund Balances	5,761,691	749,933	(4,625,428)	1,886,196
Total Liabilities and Fund Balances	\$ 6,207,301	\$ 749,933	\$ 760,629	\$ 7,717,863

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, 2025**

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
REVENUES				
Homeowner Assessments	\$ 3,836,833	\$ 242,314	\$ 198,720	\$ 4,277,867
Commercial Assessments	589,150	32,322	66,816	688,288
Community Enhancement Fee	-	-	1,046,290	1,046,290
Late Fees and Transfer Fees	25,364	-	-	25,364
Architectural Fees	6,075	-	-	6,075
Other Income	21,813	-	-	21,813
Estate Club Membership, Fees and Sales	202,768	-	-	202,768
Interest Income	376	7,392	14,724	22,492
TOTAL REVENUES	4,682,379	282,028	1,326,550	6,290,957
EXPENSES				
Administration	3,055,257	-	228,170	3,283,427
Security	815,239	-	-	815,239
Estate Club	1,316,272	-	-	1,316,272
Landscape Maintenance	1,779,721	-	-	1,779,721
Less: Allocation	(1,749,996)	-	-	(1,749,996)
Building Maintenance	399,095	-	-	399,095
Less: Allocation	(382,041)	-	-	(382,041)
Major Repairs and Replacements	-	531,729	-	531,729
Capital Fund Expenses	-	-	224,909	224,909
TOTAL EXPENSES	5,233,547	531,729	453,079	6,218,355
EXCESS REVENUES (EXPENSES)	(551,168)	(249,701)	873,471	72,602
FUND BALANCES, BEGINNING OF YEAR	6,263,715	604,761	(5,054,882)	1,813,594
TRANSFERS BETWEEN FUNDS				
From Operating for Landscape Depreciation	(39,242)	39,242	-	-
To Operating for Fixed Asset Acquisition	165,405	(57,568)	(107,837)	-
From Capital Improvement Fund to Reserve Fund	-	400,000	(400,000)	-
Additional Transfers Between Funds	(77,019)	13,199	63,820	-
TOTAL TRANSFERS BETWEEN FUNDS	49,144	394,873	(444,017)	-
FUND BALANCES, END OF YEAR	\$ 5,761,691	\$ 749,933	\$ (4,625,428)	\$ 1,886,196

See accompanying notes to financial statements.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2025

	<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)	\$ (551,168)	\$ (249,701)	\$ 873,471	\$ 72,602
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities				
Depreciation	400,096	-	-	400,096
Provision for Credit Loss Expense	5,972	-	-	5,972
(Increase)/Decrease In				
Accounts Receivable	(50,142)	-	(14,626)	(64,768)
Inventory - Security	(19,262)	-	-	(19,262)
Prepaid Expenses	(2,861)	-	-	(2,861)
Accrued Interest Income	-	53	(500)	(447)
Increase/(Decrease) In				
Accounts Payable	110,829	-	-	110,829
Accrued Expenses	23,608	-	-	23,608
Accrued Payroll and Related Liabilities	(106,574)	-	-	(106,574)
Accrued Interest Expense	-	-	(948)	(948)
Prepaid Assessments	(20,072)	-	-	(20,072)
Due To/From Satellites	44,372	-	-	44,372
Net Cash Provided (Used) by Operating Activities	<u>(165,202)</u>	<u>(249,648)</u>	<u>857,397</u>	<u>442,547</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchases of Certificates of Deposit	-	(100,000)	(300,000)	(400,000)
Maturities of Certificates of Deposit	-	161,049	322,097	483,146
Reinvested Interest	-	(3,359)	(6,717)	(10,076)
Purchases of Property and Equipment	(165,405)	-	-	(165,405)
Net Cash Provided (Used) by Investing Activities	<u>(165,405)</u>	<u>57,690</u>	<u>15,380</u>	<u>(92,335)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Payments on CIT Loan	-	-	(267,840)	(267,840)
Transfers for Landscape Depreciation	(39,242)	39,242	-	-
Transfers of Property and Equipment	165,405	(57,568)	(107,837)	-
To Reserve Fund from Capital Improvement Fund	-	400,000	(400,000)	-
Additional Transfers Between Funds	(77,019)	13,199	63,820	-
Change in Interfund Balances	(100,000)	100,000	-	-
Net Cash Provided (Used) by Financing Activities	<u>(50,856)</u>	<u>494,873</u>	<u>(711,857)</u>	<u>(267,840)</u>
NET INCREASE (DECREASE) IN CASH	(381,463)	302,915	160,920	82,372
CASH BALANCE, BEGINNING OF YEAR	406,754	346,464	274,257	1,027,475
CASH BALANCE, END OF YEAR	<u>\$ 25,291</u>	<u>\$ 649,379</u>	<u>\$ 435,177</u>	<u>\$ 1,109,847</u>
<u>SUPPLEMENTARY INFORMATION</u>				
Income Taxes	\$ -	\$ -	\$ -	\$ -
Interest	\$ -	\$ -	\$ 228,170	\$ 228,170

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

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, 2025**

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.

Certificates of Deposit

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

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, 2025, represent fees due from homeowners. The Association accounts for receivables on the cost basis. Receivables are reviewed regularly, and the Association establishes an allowance for credit losses on receivables based on the aging of receivables as the basis to determine expected credit losses for receivables and believes that the composition of receivables at year-end is consistent with historical conditions as credit terms and practices and the customer base have not changed significantly. The Association does not believe economic conditions have had an impact on the current expected credit losses. 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.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Estimates for the allowance of credit losses for receivables are based on historical credit loss experience and the practical expedient that assumes the current conditions as of the balance sheet do not change for the remaining life of the receivables.

Adoption of FASB ASU 326 Financial Instruments-Credit Losses Update No. 2025-05

The Association adopted FASB Accounting Standards Update No. 2025-05, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*, which modifies the measurement of current expected credit losses on certain financial statements. The Current Expected Credit Losses update provides a framework for estimating and recognizing credit losses on financial assets measured at amortized cost based on historical credit loss experience, current conditions, and reasonable forecasts of future cash flows at the end of a reporting period. The Association elected a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the asset. The Association is utilizing the modified retrospective transition method, meaning the new accounting principle is applied prospectively. The adoption of this Standard did not have a material impact on the Association's financial statements.

Inventory

Inventory includes items used for security and gate entry. Inventory is stated at the lower of cost or net realizable value. Cost is determined on the first-in, first-out (FIFO) basis.

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, 2025, 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.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of Management’s Review

Subsequent events have been evaluated through May 27, 2026, which is the date the financial statements were available to be issued.

NOTE 3 – 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.

NOTE 4 – CERTIFICATES OF DEPOSIT

At December 31, 2025, the Association had \$400,000 in certificates of deposit, \$100,000 of which was reported in the Reserve Fund, and \$300,000 was reported in the Capital Fund. The certificates of deposit are reported at cost and do not include accrued interest. The certificates of deposit outstanding at December 31, 2025, mature in 2026, and earn interest at a rate of 3.20%.

NOTE 5 – 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, 2025, cash balances were as follows:

Petty Cash	\$	848
Operating Fund Accounts		24,443
Reserve Fund Accounts		649,379
Capital Accounts		435,177
Total Cash	\$	<u>1,109,847</u>

NOTE 6 – 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, 2025, the Association recognized \$1,046,290 in Community Enhancement Fee revenue.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

NOTE 7 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2025, 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, 2025, an allowance for credit losses was recorded in the amount of \$3,400, and the provision for credit loss expense was \$5,972.

Receivables consisted of the following at December 31, 2025:

	Total Due	Over 90 Days
Accounts Receivable	\$ 106,042	\$ 10,522
Capital Fund Receivables	23,738	-
Total Gross Receivables	129,780	10,522
Less: Allowance for Credit Losses	(3,400)	(3,400)
Total Net Receivables	<u>\$ 126,380</u>	<u>\$ 7,122</u>

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 2025, the combined annual assessment for residential memberships was \$4,132.44, payable in monthly installments of \$344.37 with \$243 per month allocated to operations, \$65.37 allocated to security, \$20 designated to fund future major repairs and replacements and \$16 designated to fund future capital improvement expenditures.

The annual assessment for commercial members was \$1,977.84, payable in monthly installments of \$164.82 per month, with \$141.08 allocated to operations, \$7.74 designated to fund future major repairs and replacements and \$16 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, 2025, the Association had delinquent accounts of \$106,042. 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 GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

NOTE 8 – MEMBER ASSESSMENTS (CONTINUED)

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 \$60,672 and \$106,042, respectively.

NOTE 9 – PROPERTY AND EQUIPMENT

Property and Equipment as of December 31, 2025, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Buildings and Improvements	\$ 6,208,467	\$ 1,312,779	\$ 4,895,688
Furniture and Fixtures	773,192	407,125	366,067
Equipment	1,325,346	769,253	556,093
Office Equipment	7,688	4,316	3,372
Vehicles	542,613	399,425	143,188
Computer Systems and Upgrades	<u>77,397</u>	<u>77,200</u>	<u>197</u>
Total Property and Equipment	<u>\$ 8,943,703</u>	<u>\$ 2,970,098</u>	<u>\$ 5,964,605</u>

Depreciation expense for the year ended December 31, 2025 is \$400,096.

NOTE 10 – 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, 2025, totaling \$126,380, 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 credit losses.

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).

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

NOTE 11 – 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 12 – 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, 2025.

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, 2025.

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 2023, or by Arizona state tax authorities for years before 2022.

NOTE 13 – BANK 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.

**THE GAINEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

NOTE 13 – BANK LOAN (CONTINUED)

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 loan balance at December 31, 2025, was \$5,365,370. The Association paid \$267,840 in principal payments in 2025. Total interest expense recorded in 2025 for this loan was \$228,170. Accrued interest on this loan at December 31, 2025, was \$20,687.

The classification of debt as of December 31, 2025, was as follows:

Total Debt	\$ 5,365,370
Less: Current Portion	<u>(279,217)</u>
Total Long-Term Debt	<u>\$ 5,086,153</u>

Minimum payments of debt are as follows:

<u>Years Ending December 31,</u>	
2026	\$ 279,217
2027	291,048
2028	302,822
2029	316,210
2030	329,608
Thereafter	<u>3,846,465</u>
Total future minimum payments	<u>\$ 5,365,370</u>

NOTE 14 – MAJOR REPAIR AND REPLACEMENT EXPENSES

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, which has been updated with an effective date of January 1, 2026. 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.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025**

NOTE 14 – MAJOR REPAIR AND REPLACEMENT EXPENSES (CONTINUED)

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, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available.

At December 31, 2025, funds accumulated for this purpose were \$749,933. The activity for the Reserve Fund in the year ended December 31, 2025, is summarized as follows:

Beginning Balance, Reserve Fund	\$	604,761
Homeowner Assessments		242,314
Commercial Assessments		32,322
Interest Income		7,392
Less: Major Repairs and Replacement Expenditures		<u>(531,729)</u>
Excess Revenues (Expenses)		<u>355,060</u>
Fund Transfers		
Landscape Maintenance Asset Depreciation		39,242
Fixed Asset Acquisitions Transferred to Operating		(57,568)
From Capital Improvement Fund to Reserve Fund		400,000
Additional Transfers Between Funds		<u>13,199</u>
Net Fund Transfers		<u>394,873</u>
Ending Balance, Reserve Fund	\$	<u><u>749,933</u></u>



**THE GAINEY 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, 2025**

Gainey Ranch Community Association had a reserve study conducted in 2022, which has been updated with an effective date of January 1, 2026, 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, 2025, 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	Reserve Fund Balance December 31, 2025
Administration/Common Areas	0 to 14	\$ 1,535,347	\$ 239,979
Security	0 to 22	583,666	104,990
Maintenance	0 to 17	822,290	157,486
Estate Club	0 to 31	2,045,480	247,478
 Total		 <u>\$ 4,986,783</u>	 <u>\$ 749,933</u>

See independent auditor's report.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Administration	Security	Estate Club	Landscape Maintenance	Building Maintenance	Major Repairs	Capital Repairs	Total Expenses
Salaries and Wages	\$ 963,374	\$ 351,265	\$ 431,045	\$ 1,165,362	\$ 268,589	\$ -	\$ -	\$ 3,179,635
Payroll Taxes and Employee Related Expenses	167,343	61,155	61,388	122,739	31,302	-	-	443,927
Utilities and Telephone	137,559	61,566	105,887	130,417	29,507	-	-	464,936
Office Supplies and Expenses	28,729	3,038	14,531	13,597	-	-	-	59,895
Permits, Fees, Licenses and Taxes	1,473	-	1,440	3,568	308	-	-	6,789
Legal and Professional Services	68,812	-	-	-	-	-	-	68,812
Insurance	45,707	7,737	24,692	46,759	2,723	-	-	127,618
Interest Expense	-	-	-	-	-	-	228,170	228,170
Repairs and Maintenance - Facilities and Equipment	16,777	4,283	13,130	36,772	4,840	-	-	75,802
Repairs and Maintenance - Common Property	82,963	36,971	31,564	56,412	1,833	531,729	224,909	966,381
Outside Services	819,788	84,148	85,117	29,296	-	-	-	1,018,349
Plants, Trees, Etc.	51,759	93	10,118	747	-	-	-	62,717
Supplies	61,375	19,059	47,141	128,265	19,000	-	-	274,840
Equipment Rental and Lease	17,326	-	21,792	6,003	769	-	-	45,890
Other Administration	19,330	539	83,172	542	-	-	-	103,583
Total Expenses Before Depreciation and Maintenance Allocations	2,482,315	629,854	931,017	1,740,479	358,871	531,729	453,079	7,127,344
Depreciation	25,566	31,519	303,769	39,242	-	-	-	400,096
Landscape Maintenance Allocation	559,581	-	47,437	(1,709,772)	-	-	-	(1,102,754) (A)
Building Maintenance Allocation	136,437	5,224	34,049	-	(382,041)	-	-	(206,331) (A)
General and Administration Allocation	(148,642)	148,642	-	(40,224)	40,224	-	-	-
Total Expenses	\$ 3,055,257	\$ 815,239	\$ 1,316,272	\$ 29,725	\$ 17,054	\$ 531,729	\$ 453,079	\$ 6,218,355

(A) \$1,102,754 of landscape maintenance expenses and \$206,331 of building maintenance expenses were allocated to satellite associations.

See independent auditor's report.