



**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020
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

Report on Financial Statements

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, 2020, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Gainey Ranch Community Association as of December 31, 2020, and the results of its operations and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 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.

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.

Butler Hansen, PLC

Gilbert, Arizona
May 19, 2021

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2020**

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
ASSETS				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 707,579	\$ 395,097	\$ 645,534	\$ 1,748,210
Accounts Receivable, Net of Allowance of \$1,000	4,541	-	24,762	29,303
Inventory - Security	-	16,641	-	16,641
Prepaid Expenses	35,526	-	-	35,526
Interfund Balance	(3,948)	3,948	-	-
TOTAL CURRENT ASSETS	743,698	415,686	670,296	1,829,680
<u>OTHER ASSETS</u>				
Property and Equipment, Net of Accumulated Depreciation of \$1,502,785	1,218,333	-	-	1,218,333
TOTAL OTHER ASSETS	1,218,333	-	-	1,218,333
TOTAL ASSETS	\$ 1,962,031	\$ 415,686	\$ 670,296	\$ 3,048,013
LIABILITIES AND FUND BALANCES				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 110,401	\$ -	\$ 108	\$ 110,509
Accrued Expenses	28,338	-	-	28,338
Accrued Payroll and Related Liabilities	161,864	-	-	161,864
Accrued Interest	-	-	5,852	5,852
Prepaid Assessments	62,682	-	-	62,682
Due To/From Satellites	10,422	-	-	10,422
Pass-Through - Prepaid Legend Wall Project	56,147	-	-	56,147
TOTAL CURRENT LIABILITIES	429,854	-	5,960	435,814
<u>LONG-TERM LIABILITIES</u>				
Line of Credit	-	-	1,660,840	1,660,840
TOTAL LONG-TERM LIABILITIES	-	-	1,660,840	1,660,840
Total Liabilities	429,854	-	1,666,800	2,096,654
<u>FUND BALANCES</u>				
Operating Fund	1,532,177	-	-	1,532,177
Reserve Fund	-	415,686	-	415,686
Capital Fund	-	-	(996,504)	(996,504)
Total Fund Balances	1,532,177	415,686	(996,504)	951,359
Total Liabilities and Fund Balances	\$ 1,962,031	\$ 415,686	\$ 670,296	\$ 3,048,013

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, 2020**

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
REVENUES				
Homeowner Assessments	\$ 2,732,525	\$ 147,412	\$ 124,200	\$ 3,004,137
Commercial Assessments	516,571	23,010	41,760	581,341
Community Enhancement Fee	-	-	371,357	371,357
Estate Club Assessment	-	-	139,725	139,725
Late Fees and Transfer Fees	26,574	-	-	26,574
Architectural Fees	3,365	-	-	3,365
Rental Income	31,164	-	-	31,164
Other Income	31,131	-	181,910	213,041
Estate Club Membership, Fees and Sales	74,390	-	-	74,390
Interest Income	1,212	1,118	875	3,205
TOTAL REVENUES	3,416,932	171,540	859,827	4,448,299
EXPENSES				
Administration	2,159,419	-	12,549	2,171,968
Security	674,395	-	-	674,395
Estate Club	657,737	-	-	657,737
Landscape Maintenance	1,846,714	-	-	1,846,714
Less: Allocation	(1,846,714)	-	-	(1,846,714)
Building Maintenance	398,429	-	-	398,429
Less: Allocation	(398,429)	-	-	(398,429)
Major Repairs and Replacements	-	55,605	12,563	68,168
TOTAL EXPENSES	3,491,551	55,605	25,112	3,572,268
EXCESS REVENUES (EXPENSES)	(74,619)	115,935	834,715	876,031
FUND BALANCES, BEGINNING OF YEAR	811,852	343,858	(1,080,382)	75,328
TRANSFERS BETWEEN FUNDS				
From Operating for Landscape Depreciation	(52,119)	52,119	-	-
To Operating for Fixed Asset Acquisition	847,063	(96,226)	(750,837)	-
Net Transfers	794,944	(44,107)	(750,837)	-
FUND BALANCES, END OF YEAR	\$ 1,532,177	\$ 415,686	\$ (996,504)	\$ 951,359

See accompanying notes to financial statements.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	OPERATING FUND	RESERVE FUND	CAPITAL FUND	TOTAL
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>				
Excess Revenues (Expenses)	\$ (74,619)	\$ 115,935	\$ 834,715	\$ 876,031
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities				
Depreciation	104,255	-	-	104,255
Loss on Fixed Asset Disposal	148,930	-	-	148,930
(Increase)/Decrease In				
Accounts Receivable	(471)	-	(23,397)	(23,868)
Inventory - Security	-	(122)	-	(122)
Prepaid Expenses	14,781	-	-	14,781
Increase/(Decrease) In				
Accounts Payable	18,608	(2,895)	(660)	15,053
Accrued Expenses	10,485	-	-	10,485
Accrued Payroll and Related Liabilities	27,511	-	-	27,511
Accrued Interest	-	-	772	772
Income Taxes Payable	(4,379)	-	-	(4,379)
Prepaid Assessments	(26,720)	-	-	(26,720)
Due From Satellites	(32,221)	-	-	(32,221)
Pass-Through - Prepaid Legend Wall Project	56,147	-	-	56,147
Deferred Income - Building Rental	(200)	-	-	(200)
Net Cash Provided (Used) by Operating Activities	<u>242,107</u>	<u>112,918</u>	<u>811,430</u>	<u>1,166,455</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchases of Property and Equipment	(847,063)	-	-	(847,063)
Net Cash Provided (Used) by Investing Activities	<u>(847,063)</u>	<u>-</u>	<u>-</u>	<u>(847,063)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Payments on Mutual of Omaha Loan	-	-	(1,219,379)	(1,219,379)
Proceeds from Line of Credit	-	-	1,660,840	1,660,840
Transfers for Landscape Depreciation	(52,119)	52,119	-	-
Transfers of Property and Equipment	847,063	(96,226)	(750,837)	-
Change in Interfund Balances	24,367	(3,948)	(20,419)	-
Net Cash Provided (Used) by Financing Activities	<u>819,311</u>	<u>(48,055)</u>	<u>(329,795)</u>	<u>441,461</u>
NET INCREASE (DECREASE) IN CASH	214,355	64,863	481,635	760,853
CASH BALANCE, BEGINNING OF YEAR	493,224	330,234	163,899	987,357
CASH BALANCE, END OF YEAR	<u>\$ 707,579</u>	<u>\$ 395,097</u>	<u>\$ 645,534</u>	<u>\$ 1,748,210</u>
<u>SUPPLEMENTARY INFORMATION</u>				
Income Taxes	\$ 4,379	\$ -	\$ -	\$ 4,379
Interest	\$ -	\$ -	\$ 50,422	\$ 50,422

See accompanying notes to financial statements.

THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020

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, 2020

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, 2020, 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, 2020**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020, the common real property capitalized consisted of:

- (a) Administration Building
- (b) Maintenance Building
- (c) 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 19, 2021, which is the date the financial statements were available to be issued.

NOTE 4 – 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, 2020, cash balances were as follows:

Petty Cash	\$ 848
Operating Fund Accounts	706,731
Reserve Fund Accounts	395,097
Capital Accounts	645,534
Total Cash	<u>\$ 1,748,210</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2020, 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, 2020, 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, 2020:

	<u>Total Due</u>	<u>Over 90 Days</u>
Assessments Receivable	\$ 5,541	\$ 5,541
Capital Fund Receivables	24,762	1,573
Total Gross Receivables	<u>30,303</u>	<u>7,114</u>
Less: Allowance for Doubtful Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Total Net Receivables	<u>\$ 29,303</u>	<u>\$ 6,114</u>

NOTE 6 – 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 2020, the combined annual assessment for residential memberships was \$2,907.36, payable in monthly installments of \$242.28 with \$166.21 per month allocated to operations, \$54.08 allocated to security, \$11.99 designated to fund future major repairs and replacements and \$10 designated to fund future capital improvement expenditures. In April 2020, the Association increased the annual assessment for residential memberships by \$15, allocated to the capital improvement fund, to facilitate loan payments to CIT Bank.

The annual assessment for commercial members was \$1,666.20, payable in monthly installments of \$138.85 per month, with \$123.70 allocated to operations, \$5.15 designated to fund future major repairs and replacements and \$10 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.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 6 – MEMBER ASSESSMENTS (CONTINUED)

At December 31, 2020, the Association had delinquent assessments of \$5,541. 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 assessments receivable as of the beginning and end of the year are \$5,070 and \$5,541, respectively.

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.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and Equipment as of December 31, 2020, consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Buildings and Improvements	\$ 807,951	\$ 727,542	\$ 80,409
Furniture and Fixtures	57,709	47,106	10,603
Equipment	553,315	322,700	230,615
Office Equipment	3,193	3,193	-
Vehicles	473,675	345,659	128,016
Computer Systems and Upgrades	74,438	56,585	17,853
Construction in Progress	750,837	-	750,837
Total Property and Equipment	<u>\$ 2,721,118</u>	<u>\$ 1,502,785</u>	<u>\$ 1,218,333</u>

Depreciation expense for the year ended December 31, 2020 is \$104,255.

NOTE 9 – OPERATING LEASE OBLIGATIONS

At December 31, 2020, the Association retained operating leases for office equipment, maintenance equipment and fitness equipment that expire through 2022. Equipment rental and lease expense for the year ended December 31, 2020, was approximately \$39,000. Minimum future rental payments under the noncancellable operating leases are as follows:

<u>Years Ending December 31,</u>	
2021	\$ 11,739
2022	814
Total future minimum rental payments	<u>\$ 12,553</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 10 – RENTAL INCOME

The Association is receiving rental income in accordance with two agreements with two unrelated third parties for the purpose of building and maintaining distributed antenna systems (i.e., “cell towers”). Under the terms of the agreements, the tenants agree to pay the Association payments ranging from \$1,090.48 per month to \$1,128.76 monthly per tower, increasing at an annual rate of 8% to 10% over the prior year’s rate. These agreements have provisions for up to two consecutive five year extensions, provided that the tenant exercises its option to extend and is current on its obligations to the Association.

As of the year ended December 31, 2020, the original and extension terms of the remaining two agreements have expired, and the tenants are making payments on a month-to-month basis.

For the year ended December 31, 2020, the Association received \$31,164 in rental income.

In 2020, the Association sold its interest in one of the cell tower lease agreements to an unrelated third party for a total consideration of \$185,000. After proration of rental payments, title and escrow charges the Association received \$181,910 for selling its interest in the cell tower lease agreement. The income is recorded in the capital fund for the year ended December 31, 2020.

NOTE 11 – 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, 2020, totaling \$29,303, 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 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 12 – INCOME TAXES

Before year end, 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. During the year ended December 31, 2020, the Association disbursed \$3,539 and \$840 for 2019 federal and state tax liabilities, respectively.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 12 – INCOME TAXES (CONTINUED)

A provision is made in the financial statements for income taxes on unrelated trade or business income earned, when required. The Association had no tax liability for the year ended December 31, 2020.

NOTE 13 – 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, 2020.

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, 2020.

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 2018, or by Arizona state tax authorities for years before 2017.

NOTE 14 – MAJOR REPAIR AND REPLACEMENT EXPENSES

In 2020, the following major repair and/or replacement expenses were paid from the reserve fund:

Water Concentrator	\$ 2,508
Varidesks	2,328
Pool – New Stair Rail	4,865
Reserve Study	1,925
Stucco Wall Painting	11,295
Irrigation Controller	2,465
New Computers and Server	16,376
HVAC for Maintenance	10,945
Irrigation Meter	1,178
Gate Repairs	<u>1,720</u>
Total Major Repairs and Replacements	<u>\$ 55,605</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 2020, 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.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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

At December 31, 2020, funds accumulated for this purpose were \$415,686. The activity for the Reserve Fund in the year ended December 31, 2020, is summarized as follows:

Beginning Balance, Reserve Fund	\$	343,858
Homeowner Assessments		147,412
Commercial Assessments		23,010
Interest Income		1,118
Less: Major Repairs and Replacement Expenditures		<u>(55,605)</u>
Excess Revenues (Expenses)		<u>459,793</u>
Fund Transfers		
Landscape Maintenance Asset Depreciation		52,119
Fixed Asset Acquisitions Transferred to Operating		<u>(96,226)</u>
Net Fund Transfers		<u>(44,107)</u>
Ending Balance, Reserve Fund	\$	<u><u>415,686</u></u>

NOTE 15 – CIT LOAN

During 2014, the Association entered into an agreement for a line of credit to be used for capital improvements, including funding the remodel of the Estate Club, Loop Road focal area improvements, community lighting, landscape enhancements, upgrading the security access and key system, contingency, closing costs and other related project costs. The funds of up to \$2,150,000 were available until November 1, 2015 (the draw period), for disbursement to the Association in one or more advances.

Beginning on June 1, 2014, and throughout the draw period, the Association began paying interest only payments to the lender at a rate of 4.25% of the outstanding loan balance. Beginning in December 2015, after the draw period ended, the Association began making monthly principal and interest payments of \$25,213.55, which are payable by 102 successive monthly payments.

The principal and interest payments were calculated by taking the entire unpaid principal balance that was outstanding on November 1, 2015, which totaled \$2,150,000. 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 May 1, 2024.

In May, 2019, the interest rate on the loan increased to 4.838%.

The Association paid \$60,970 in principal payments in 2020. Total interest expense recorded in 2020 for this loan was \$12,549. The loan was paid in full in March 2020.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE 16 – LINE OF CREDIT

On March 20, 2020, the Association entered into an agreement for a line of credit in the amount of \$6,500,000 to be used for the purpose of refinancing an existing loan (See note 15), funding construction of a new Gainey Ranch Estate Club, contingency, soft costs, closing costs and other related costs within the project. Following the closing of the new line of credit, a portion of the funds were credited to pay the Association's existing loan in full. The remaining funds will be available until March 1, 2021 (the draw period), for disbursement to the Association in one or more advances.

Beginning May 1, 2020, and throughout the draw period until and including April 1, 2021, the Association will pay interest only payments to the lender at a rate of 4.10% of the outstanding balance. Beginning May 1, 2021, the Association will begin making monthly principal and interest payments, which will be payable in 228 successive monthly payments.

The principal and interest payments will be calculated by taking the entire unpaid principal balance that will be outstanding on April 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 line of credit balance at December 31, 2020, was \$1,660,840. Total interest recorded in 2020 for this loan was \$37,873. Accrued interest on this loan at December 31, 2020, was \$5,852. The interest paid and accrued during the construction period of the new Estate Club will be capitalized. In 2020, total interest capitalized was \$43,725, and is included in Construction in Progress at December 31, 2020.

NOTE 17 – COVID-19 PANDEMIC

During the year ended December 31, 2020, a pandemic caused by the coronavirus (COVID-19) has had a significant detrimental impact on the United States economy. As a result, economic uncertainties have arisen which could negatively impact revenue for the Association. Other financial impacts such as debt-related covenant violations, bad debt losses, contract modifications, inadequate reserve funding, or other unforeseen circumstances could occur.

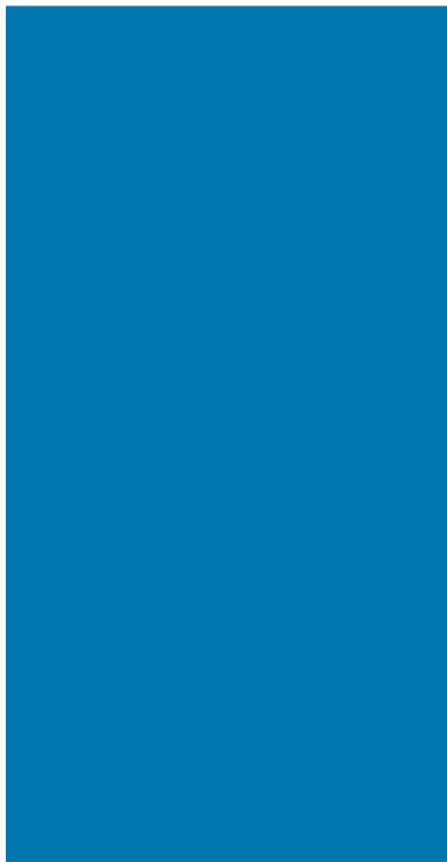
NOTE 18 – PASS THROUGH – PREPAID LEGEND WALL PROJECT

The Association recorded a pass-through liability at December 31, 2020, in the amount of \$56,147 for prepaid revenue related to a wall project at one of the satellite associations, The Owners Association for The Legend at Gainey Ranch. Expenses related to this project had not been incurred as of December 31, 2020.



**THE GAINEY RANCH COMMUNITY
ASSOCIATION**

SUPPLEMENTARY
INFORMATION



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**THE GAINNEY RANCH COMMUNITY ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2020**

Gainey Ranch Community Association had a reserve study conducted in 2020, which was dated March 28, 2020, 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, 2020, 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 replacement 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 Current Replacement Cost	Replacement Fund Balance December 31, 2020
Administration/Common Areas	0 to 20	\$ 974,964	\$ 145,490
Security	0 to 27	464,425	87,294
Maintenance	0 to 23	716,661	108,078
Estate Club	0 to 36	703,465	74,824
Total		<u>\$ 2,859,515</u>	<u>\$ 415,686</u>

See independent auditor's report.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Administration	Security	Estate Club	Landscape Maintenance	Building Maintenance	Major Repairs	Capital Repairs	Total Expenses
Salaries and Wages	\$ 825,359	\$ 267,895	\$ 168,293	\$ 1,185,342	\$ 273,342	\$ -	\$ -	\$ 2,720,231
Payroll Taxes and Employee Related Expenses	169,560	41,710	19,550	178,740	51,918	-	-	461,478
Utilities and Telephone	113,118	81,121	59,741	90,428	14,138	-	-	358,546
Office Supplies and Expenses	30,400	2,921	6,415	7,975	-	-	-	47,711
Permits, Fees, Licenses and Taxes	1,904	-	1,797	3,543	537	-	-	7,781
Legal and Professional Services	54,207	-	-	150	-	-	-	54,357
Insurance	22,959	2,097	7,118	29,919	2,875	-	-	64,968
Interest Expense	-	-	-	-	-	-	12,549	12,549
Repairs and Maintenance - Facilities and Equipment	14,271	3,635	7,100	46,489	6,097	-	-	77,592
Repairs and Maintenance - Common Property	70,807	25,518	13,589	54,021	1,862	55,605	12,563	233,965
Outside Services	222,860	74,239	39,175	50,193	-	-	-	386,467
Plants, Trees, Etc.	41,919	-	2,674	46,275	-	-	-	90,868
Supplies	37,405	9,673	11,326	98,940	13,766	-	-	171,110
Equipment Rental and Lease	11,084	-	5,907	2,490	700	-	-	20,181
Other Administration	9,321	1,965	159,553	54	-	-	-	170,893
Total Expenses Before Depreciation and Maintenance Allocations	1,625,174	510,774	502,238	1,794,559	365,235	55,605	25,112	4,878,697
Depreciation	11,685	15,504	24,911	52,155	-	-	-	104,255
Landscape Maintenance Allocation	535,518	-	93,311	(1,813,520)	-	-	-	(1,184,691) (A)
Building Maintenance Allocation	129,442	5,717	37,277	-	(398,429)	-	-	(225,993) (A)
General and Administration Allocation	(142,400)	142,400	-	(33,194)	33,194	-	-	-
Total Expenses	\$ 2,159,419	\$ 674,395	\$ 657,737	\$ -	\$ -	\$ 55,605	\$ 25,112	\$ 3,572,268

(A) \$1,184,691 of landscape maintenance expenses and \$225,993 of building maintenance expenses were allocated to satellite associations.

See independent auditor's report.