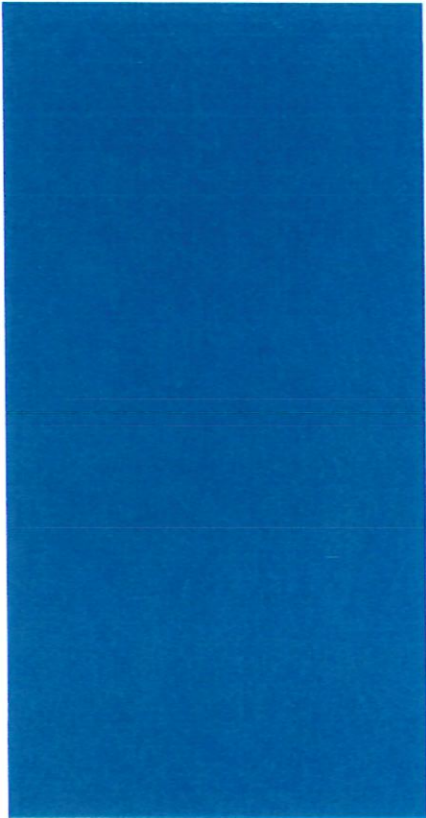


**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**



FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2022
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, 2022, 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, 2022, 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.

May 23, 2023

To the Board of Directors of:
The Gainey Ranch Community Association

We have audited the financial statements of The Gainey Ranch Community Association for the year ended December 31, 2022, and we will issue our report thereon dated May 23, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 30, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Gainey Ranch Community Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2022. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical revenues, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 23, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information Accompanying the Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of Board of Directors and management of The Gainey Ranch Community Association and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

Butler Hansen, PLC

Butler Hansen, PLC

**GAINEY RANCH COMMUNITY ASSOCIATION
BOARD OF DIRECTORS MEETING**

**Wednesday June 7, 2023 @ 9:00 am
Estate Club & Zoom**

AGENDA

1. Call to Order – Proof of Notice
2. Approve April 10, 2023, Meeting Minutes
3. Emergency meeting minutes Jim Funk
 - April 21, 2023
 - May 10, 2023
4. Audit Report Paul Hansen
5. Financial Report David Merrill
6. GRCA Benefit Renewal 2023/2024 David Merrill
7. Committee Reports
 - a. Financial ✓
 - b. Tennis ✓
 - c. Pickleball ✓
 - d. Estate Club Operations ✓
 - e. Communication
 - f. Security
 - g. Fitness
 - h. Social
8. Non-Residential Board Member Jim Funk
9. Projects / Capital Jim Funk
10. Old Business
 - Door to door campaign solicitation
11. New Business
 - a. Amendment of CCR's
 - b. Educational classes
12. Homeowner comments Information only

Executive Session

Current Legal Summary – Information only
Standards of Executive Session

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.

Bretler Hansen, PLC

Gilbert, Arizona
May 23, 2023

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2022**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>
ASSETS				
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 510,245	\$ 262,195	\$ 448,643	\$ 1,221,083
Accounts Receivable, Net of Allowance of \$1,000	40,300	-	2,150	42,450
Inventory - Security	31,651	-	-	31,651
Prepaid Expenses	41,648	-	-	41,648
Interfund Balance	707	-	(707)	-
TOTAL CURRENT ASSETS	624,551	262,195	450,086	1,336,832
<u>OTHER ASSETS</u>				
Property and Equipment, Net of Accumulated Depreciation of \$1,840,677	6,719,824	-	-	6,719,824
TOTAL OTHER ASSETS	6,719,824	-	-	6,719,824
TOTAL ASSETS	\$ 7,344,375	\$ 262,195	\$ 450,086	\$ 8,056,656
LIABILITIES AND FUND BALANCES				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	\$ 116,580	\$ 2,400	\$ -	\$ 118,980
Accrued Expenses	55,794	-	-	55,794
Accrued Payroll and Related Liabilities	160,765	-	-	160,765
Accrued Interest	-	-	21,664	21,664
Prepaid Assessments	91,247	-	-	91,247
Due To/From Satellites	128,853	-	-	128,853
Deferred Income - Building Rental	200	-	-	200
CIT Loan, Current Portion	-	-	246,560	246,560
TOTAL CURRENT LIABILITIES	553,439	2,400	268,224	824,063
<u>LONG-TERM LIABILITIES</u>				
CIT Loan, Long-Term Portion	-	-	5,889,510	5,889,510
TOTAL LONG-TERM LIABILITIES	-	-	5,889,510	5,889,510
Total Liabilities	553,439	2,400	6,157,734	6,713,573
<u>FUND BALANCES</u>				
Operating Fund	6,790,936	-	-	6,790,936
Reserve Fund	-	259,795	-	259,795
Capital Fund	-	-	(5,707,648)	(5,707,648)
Total Fund Balances	6,790,936	259,795	(5,707,648)	1,343,083
Total Liabilities and Fund Balances	\$ 7,344,375	\$ 262,195	\$ 450,086	\$ 8,056,656

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, 2022**

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>CAPITAL FUND</u>	<u>TOTAL</u>
REVENUES				
Homeowner Assessments	\$ 3,278,135	\$ 149,785	\$ 161,460	\$ 3,589,380
Commercial Assessments	535,990	20,671	54,288	610,949
Community Enhancement Fee	-	-	398,199	398,199
Estate Club Assessment	-	-	186,300	186,300
Late Fees and Transfer Fees	23,358	-	-	23,358
Architectural Fees	3,740	-	-	3,740
Rental Income	23,025	-	-	23,025
Other Income	32,857	-	-	32,857
Estate Club Membership, Fees and Sales	142,702	-	-	142,702
Interest Income	459	278	938	1,675
TOTAL REVENUES	<u>4,040,266</u>	<u>170,734</u>	<u>801,185</u>	<u>5,012,185</u>
EXPENSES				
Administration	2,584,939	-	259,586	2,844,525
Security	711,507	-	-	711,507
Estate Club	1,077,398	-	-	1,077,398
Landscape Maintenance	1,754,813	-	-	1,754,813
Less: Allocation	(1,754,024)	-	-	(1,754,024)
Building Maintenance	408,130	-	-	408,130
Less: Allocation	(408,161)	-	-	(408,161)
Major Repairs and Replacements	-	191,055	-	191,055
Capital Fund Expenses	-	-	474,291	474,291
TOTAL EXPENSES	<u>4,374,602</u>	<u>191,055</u>	<u>733,877</u>	<u>5,299,534</u>
EXCESS REVENUES (EXPENSES)	(334,336)	(20,321)	67,308	(287,349)
FUND BALANCES, BEGINNING OF YEAR	6,091,169	344,058	(4,804,795)	1,630,432
TRANSFERS BETWEEN FUNDS				
From Operating for Landscape Depreciation	(35,302)	35,302	-	-
To Operating for Fixed Asset Acquisition	1,069,405	(46,519)	(1,022,886)	-
Additional Transfers	-	(52,725)	52,725	-
TOTAL TRANSFERS BETWEEN FUNDS	<u>1,034,103</u>	<u>(63,942)</u>	<u>(970,161)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 6,790,936</u>	<u>\$ 259,795</u>	<u>\$ (5,707,648)</u>	<u>\$ 1,343,083</u>

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	<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)	\$ (334,336)	\$ (20,321)	\$ 67,308	\$ (287,349)
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by Operating Activities				
Depreciation	348,996	-	-	348,996
(Increase)/Decrease In				
Accounts Receivable	(29,744)	-	5,463	(24,281)
Inventory - Security	(2,307)	-	-	(2,307)
Prepaid Expenses	(2,881)	-	-	(2,881)
Increase/(Decrease) In				
Accounts Payable	(12,046)	2,400	(3,462)	(13,108)
Accrued Expenses	33,907	-	-	33,907
Accrued Payroll and Related Liabilities	7,521	-	-	7,521
Accrued Interest	-	-	(835)	(835)
Prepaid Assessments	(10,093)	-	-	(10,093)
Due To/From Satellites	39,446	-	-	39,446
Pass-Through - Prepaid Legend Wall Project	(37,725)	-	-	(37,725)
Net Cash Provided (Used) by Operating Activities	<u>738</u>	<u>(17,921)</u>	<u>68,474</u>	<u>51,291</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>				
Purchases of Property and Equipment	(1,103,049)	-	-	(1,103,049)
Net Cash Provided (Used) by Investing Activities	<u>(1,103,049)</u>	<u>-</u>	<u>-</u>	<u>(1,103,049)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>				
Payments on CIT Loan	-	-	(236,538)	(236,538)
Proceeds from CIT Loan	-	-	983,131	983,131
Transfers for Landscape Depreciation	(35,302)	35,302	-	-
Transfers of Property and Equipment	1,069,405	(46,519)	(1,022,886)	-
Additional Transfers	-	(52,725)	52,725	-
Change in Interfund Balances	(4,832)	-	4,832	-
Net Cash Provided (Used) by Financing Activities	<u>1,029,271</u>	<u>(63,942)</u>	<u>(218,736)</u>	<u>746,593</u>
NET INCREASE (DECREASE) IN CASH	(73,040)	(81,863)	(150,262)	(305,165)
CASH BALANCE, BEGINNING OF YEAR	583,285	344,058	598,905	1,526,248
CASH BALANCE, END OF YEAR	<u>\$ 510,245</u>	<u>\$ 262,195</u>	<u>\$ 448,643</u>	<u>\$ 1,221,083</u>
<u>SUPPLEMENTARY INFORMATION</u>				
Income Taxes	\$ -	\$ -	\$ -	\$ -
Interest	\$ -	\$ -	\$ 259,586	\$ 259,586

See accompanying notes to financial statements.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022**

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, 2022, 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, 2022**

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, 2022, 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 23, 2023, 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, 2022, cash balances were as follows:

Petty Cash	\$ 848
Operating Fund Accounts	509,397
Reserve Fund Accounts	262,195
Capital Accounts	<u>448,643</u>
Total Cash	<u>\$ 1,221,083</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2022, 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, 2022, 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, 2022:

	<u>Total Due</u>	<u>Over 90 Days</u>
Accounts Receivable	\$ 41,300	\$ 6,077
Capital Fund Receivables	2,150	-
Total Gross Receivables	<u>43,450</u>	<u>6,077</u>
Less: Allowance for Doubtful Accounts	<u>(1,000)</u>	<u>(1,000)</u>
Total Net Receivables	<u>\$ 42,450</u>	<u>\$ 5,077</u>

NOTE 5 – 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 2022, the combined annual assessment for residential memberships was \$3,486.48, payable in monthly installments of \$303.54 with \$206.71 per month allocated to operations, \$56.77 allocated to security, \$12.06 designated to fund future major repairs and replacements, \$13 designated to fund future capital improvement expenditures and \$15 designated as the Estate Club Assessment.

The annual assessment for commercial members was \$1,755.60, payable in monthly installments of \$146.30 per month, with \$128.35 allocated to operations, \$4.95 designated to fund future major repairs and replacements and \$13 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, 2022**

NOTE 5 – MEMBER ASSESSMENTS (CONTINUED)

At December 31, 2022, the Association had delinquent accounts of \$41,300. 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 \$11,556 and \$41,300, respectively.

NOTE 6 – 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 7 – PROPERTY AND EQUIPMENT

Property and Equipment as of December 31, 2022, consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
Buildings and Improvements	\$ 6,208,467	\$ 871,629	\$ 5,336,838
Furniture and Fixtures	773,192	133,469	639,723
Equipment	1,059,006	444,450	614,556
Office Equipment	3,193	3,193	-
Vehicles	439,246	322,233	117,013
Computer Systems and Upgrades	77,397	65,703	11,694
Total Property and Equipment	<u>\$ 8,560,501</u>	<u>\$ 1,840,677</u>	<u>\$ 6,719,824</u>

Depreciation expense for the year ended December 31, 2022 is \$348,996.

NOTE 8 – RENTAL INCOME

The Association received rental income in accordance with an agreement with an unrelated third party for the purpose of building and maintaining distributed antenna systems (i.e., "cell towers"). Under the terms of the agreement, the tenant agrees to pay the Association payments ranging from \$1,516.19 per month, increasing at an annual rate of 10% over the prior year's rate. The agreement has 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, 2022, the original and extension terms of the agreement have expired, and the tenant is making payments on a month-to-month basis. Effective February 28, 2022, the lease agreement was terminated. For the year ended December 31, 2022, the Association recorded \$23,025 in rental income. \$20,332 of the reported income relates to a lump sum payment to the Association at the time the lease agreement was terminated.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022, totaling \$42,450, 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 judgments. 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 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, 2022.

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, 2022.

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 2020, or by Arizona state tax authorities for years before 2019.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 12 – MAJOR REPAIR AND REPLACEMENT EXPENSES

In 2022, the following major repair and/or replacement expenses were paid from the reserve fund:

Building Repairs	\$ 22,334
Fencing/Walls	122,502
Sprinklers	2,183
Painting	1,608
Gates/Operators	31,659
Pool/Spa/Deck	1,880
Landscape	1,989
Reserve Study	<u>6,900</u>
 Total Major Repairs and Replacements	 <u>\$ 191,055</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.

At December 31, 2022, funds accumulated for this purpose were \$259,795. The activity for the Reserve Fund in the year ended December 31, 2022, is summarized as follows:

Beginning Balance, Reserve Fund	\$ 344,058
Homeowner Assessments	149,785
Commercial Assessments	20,671
Interest Income	278
Less: Major Repairs and Replacement Expenditures	<u>(191,055)</u>
Excess Revenues (Expenses)	<u>(20,321)</u>
 Fund Transfers	
Landscape Maintenance Asset Depreciation	35,302
Fixed Asset Acquisitions Transferred to Operating	(46,519)
Additional Transfers	<u>(52,725)</u>
Net Fund Transfers	<u>(63,942)</u>
 Ending Balance, Reserve Fund	 <u>\$ 259,795</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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, 2022, was \$6,136,070. The Association paid \$236,538 in principal payments in 2022. Total interest expense recorded in 2022 for this loan was \$259,586. Accrued interest on this loan at December 31, 2022, was \$21,664.

The classification of debt as of December 31, 2022, was as follows:

Total Debt	\$ 6,136,070
Less: Current Portion	<u>(246,560)</u>
Total Long-Term Debt	<u>\$ 5,889,510</u>

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

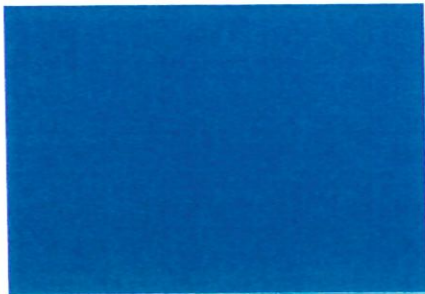
NOTE 13 – CIT LOAN (CONTINUED)

Minimum payments of debt are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 246,560
2024	256,320
2025	267,867
2026	279,217
2027	291,048
Thereafter	<u>4,795,058</u>
Total future minimum payments	<u>\$ 6,136,070</u>

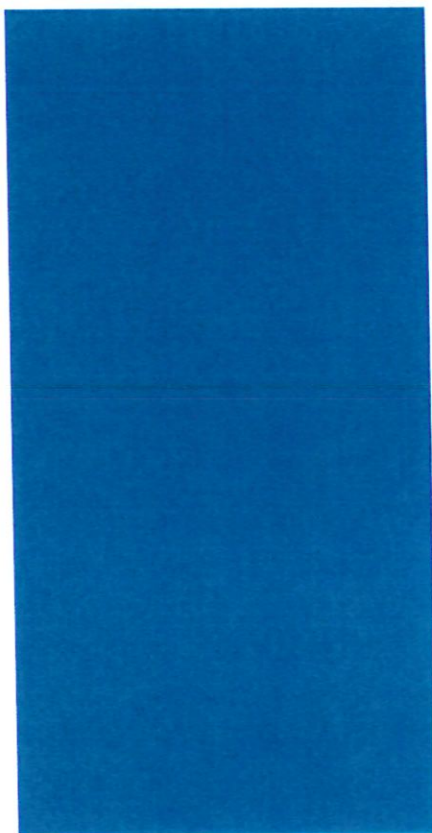
NOTE 14 – COMMUNITY ENHANCEMENT FEE PERFORMANCE OBLIGATIONS

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, 2022, the Association recognized \$398,199 in Community Enhancement Fee revenue.



**THE GAINNEY RANCH COMMUNITY
ASSOCIATION**

SUPPLEMENTARY
INFORMATION



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**THE GAINEY RANCH COMMUNITY ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2022**

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, 2022, 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:

<u>Component</u>	<u>Remaining Life (Years)</u>	<u>Estimated Future Replacement Cost</u>	<u>Replacement Fund Balance December 31, 2022</u>
Administration/Common Areas	0 to 17	\$ 1,355,343	\$ 88,330
Security	0 to 24	541,487	41,566
Maintenance	0 to 20	814,215	64,949
Estate Club	0 to 33	1,985,557	64,949
 Total		 <u>\$ 4,696,602</u>	 <u>\$ 259,795</u>

See independent auditor's report.

**THE GAINNEY RANCH COMMUNITY ASSOCIATION
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022**

	Administration	Security	Estate Club	Landscape Maintenance	Building Maintenance	Major Repairs	Capital Repairs	Total Expenses
Salaries and Wages	\$ 851,258	\$ 284,312	\$ 291,725	\$ 1,118,430	\$ 278,963	\$ -	\$ -	\$ 2,824,688
Payroll Taxes and Employee Related Expenses	176,338	41,469	36,482	144,277	54,293	-	-	452,859
Utilities and Telephone	106,089	89,567	67,081	100,829	16,989	-	-	380,555
Office Supplies and Expenses	20,964	2,351	13,408	10,642	-	-	-	47,365
Permits, Fees, Licenses and Taxes	792	-	1,675	3,393	330	-	-	6,190
Legal and Professional Services	30,983	-	-	-	-	-	-	30,983
Insurance	28,234	3,567	12,649	36,002	3,261	-	-	83,713
Interest Expense	-	-	-	-	-	-	259,586	259,586
Repairs and Maintenance - Facilities and Equipment	22,133	6,886	8,676	54,213	2,415	-	-	94,323
Repairs and Maintenance - Common Property	72,637	27,007	33,329	33,884	1,841	191,055	474,291	834,044
Outside Services	632,598	79,621	60,588	71,120	325	-	-	844,252
Plants, Trees, Etc.	36,450	85	8,752	3,755	-	-	-	49,042
Supplies	52,298	10,861	42,340	135,102	18,843	-	-	259,444
Equipment Rental and Lease	16,645	-	24,821	3,914	796	-	-	46,176
Other Administration	4,785	2,754	76,173	3,950	-	-	-	87,662
Total Expenses Before Depreciation and Maintenance Allocations	2,052,204	548,480	677,699	1,719,511	378,056	191,055	733,877	6,300,882
Depreciation	23,886	15,854	273,954	35,302	-	-	-	348,996
Landscape Maintenance Allocation	506,296	-	89,153	(1,723,950)	-	-	-	(1,128,501) (A)
Building Maintenance Allocation	144,114	5,612	36,592	-	(408,161)	-	-	(221,843) (A)
General and Administration Allocation	(141,561)	141,561	-	(30,074)	30,074	-	-	-
Total Expenses	\$ 2,584,939	\$ 711,507	\$ 1,077,398	\$ 789	\$ (31)	\$ 191,055	\$ 733,877	\$ 5,298,534

(A) \$1,128,501 of landscape maintenance expenses and \$221,843 of building maintenance expenses were allocated to satellite associations.

See independent auditor's report.