



**THE DOBSON ASSOCIATION, INC.**

---

**FINANCIAL STATEMENTS**  
AS OF DECEMBER 31, 2018  
AND FOR THE YEAR THEN ENDED  
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF  
DECEMBER 31, 2017 AND FOR THE YEAR THEN ENDED)



**THE DOBSON ASSOCIATION, INC.**

**TABLE OF CONTENTS**

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT .....	1 - 2
FINANCIAL STATEMENTS	
Balance Sheet .....	3
Statement of Revenues, Expenses and Changes in Fund Balances .....	4
Statement of Cash Flows .....	5
Notes to Financial Statements .....	6 - 13
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements .....	14
Supplementary Schedule of Revenues, Expenses and Changes in Fund Balances .....	15 - 18

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Dobson Association, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of The Dobson Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of revenues and expenses, 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 Dobson Association, Inc. as of December 31, 2018, 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.

*"Your prosperity is our number-one priority"*

**Report on Summarized Comparative Information**

We have previously audited The Dobson Association, Inc.'s December 31, 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements of common property, on page 14, 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 schedules of revenues, expenses and changes in fund balances, on pages 15 - 18, 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  
March 15, 2019

**THE DOBSON ASSOCIATION, INC.**  
**BALANCE SHEET**  
**DECEMBER 31, 2018**  
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2017)

	Operating Fund	Reserve Funds		Total 2018	Restated Total 2017
		Reserve for Asset Replacement	Other Funds		
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 947,684	\$ 296,944	\$ 152,871	\$ 1,397,499	\$ 4,730,778
Investments in Treasury Bills	1,503,294	1,833,876	249,318	3,586,488	-
Accounts Receivable, net of allowance of \$65,900 and \$69,457 - 2018 and 2017, respectively	86,631	-	-	86,631	80,509
Prepaid Expenses	590	-	-	590	16,769
Other Assets	4,735	-	-	4,735	4,001
Inventory	2,438	-	-	2,438	7,112
<b>TOTAL CURRENT ASSETS</b>	<b>2,545,372</b>	<b>2,130,820</b>	<b>402,189</b>	<b>5,078,381</b>	<b>4,839,169</b>
<b>OTHER ASSETS</b>					
Net Property and Equipment	2,243,316	-	-	2,243,316	2,062,929
Property and Equipment, In Process	111,991	-	-	111,991	166,378
<b>TOTAL OTHER ASSETS</b>	<b>2,355,307</b>	<b>-</b>	<b>-</b>	<b>2,355,307</b>	<b>2,229,307</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,900,679</b>	<b>\$ 2,130,820</b>	<b>\$ 402,189</b>	<b>\$ 7,433,688</b>	<b>\$ 7,068,476</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 4,714
Accrued Expenses	39,795	-	-	39,795	91,922
Prepaid Member Assessments	424,948	-	-	424,948	405,950
Prepaid Newsletter Advertising	11,730	-	-	11,730	11,737
Other Liabilities	9,595	-	-	9,595	6,925
<b>TOTAL CURRENT LIABILITIES</b>	<b>486,068</b>	<b>-</b>	<b>-</b>	<b>486,068</b>	<b>521,248</b>
<b>FUND BALANCES</b>					
<b>TOTAL FUND BALANCES</b>	<b>4,414,611</b>	<b>2,130,820</b>	<b>402,189</b>	<b>6,947,620</b>	<b>6,547,228</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,900,679</b>	<b>\$ 2,130,820</b>	<b>\$ 402,189</b>	<b>\$ 7,433,688</b>	<b>\$ 7,068,476</b>

See accompanying notes to the financial statements.

**THE DOBSON ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated
		Reserve for Asset Replacement	Other Funds		Total 2017
<b>REVENUES</b>					
Homeowner Assessments	\$ 2,747,191	\$ -	\$ -	\$ 2,747,191	\$ 2,747,052
Commercial Assessments	45,982	-	-	45,982	42,375
Service Charges, Transfer and Other Fees	199,801	-	-	199,801	229,058
Investment Income	8,081	14,561	2,977	25,619	6,364
Social and Recreational Activities	98,128	-	-	98,128	95,905
Rental Registration Fees	5,310	-	-	5,310	6,075
Insurance Claim Income	22,988	-	-	22,988	-
Facility and Equipment Rental Income	26,756	-	-	26,756	32,837
Preschool Tuition Income	57,012	-	-	57,012	57,822
Newsletter Advertising	52,643	-	-	52,643	50,471
Gain on Asset Disposal	-	-	-	-	650
Other Income	9,317	-	-	9,317	4,110
<b>TOTAL REVENUES</b>	<b>3,273,209</b>	<b>14,561</b>	<b>2,977</b>	<b>3,290,747</b>	<b>3,272,719</b>
<b>EXPENSES</b>					
Administrative	951,312	-	-	951,312	985,605
Board of Directors	35,779	-	-	35,779	31,769
Lakes	61,110	-	-	61,110	52,480
Landscaping	330,287	-	-	330,287	348,075
Maintenance	434,193	-	-	434,193	478,349
Preschool	53,454	-	-	53,454	55,850
Recreation	377,381	-	-	377,381	390,597
Utilities	248,808	-	-	248,808	228,599
Watercraft	2,866	-	-	2,866	4,414
Depreciation	317,931	-	-	317,931	283,339
Bad Debt Expense	7,578	-	-	7,578	20,331
Subassociation Fund Expenses	-	-	9,643	9,643	2,850
Water Conservation Fund Expenses	-	-	19,856	19,856	10,275
Capital Fund Expenses	-	-	21,902	21,902	2,260
Reserve Fund Expenses	-	18,255	-	18,255	78,408
<b>TOTAL EXPENSES</b>	<b>2,820,699</b>	<b>18,255</b>	<b>51,401</b>	<b>2,890,355</b>	<b>2,973,201</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	<b>452,510</b>	<b>(3,694)</b>	<b>(48,424)</b>	<b>400,392</b>	<b>299,518</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>3,836,080</b>	<b>2,275,534</b>	<b>435,614</b>	<b>6,547,228</b>	<b>6,253,664</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,954)</b>
<b>FUND BALANCES RESTATED, BEGINNING OF YEAR</b>	<b>3,836,080</b>	<b>2,275,534</b>	<b>435,614</b>	<b>6,547,228</b>	<b>6,247,710</b>
<b>FUND BALANCE TRANSFERS</b>					
Capitalized Fixed Asset Transfers	446,021	(341,020)	(105,001)	-	-
Contributions from Operating	(300,000)	200,000	100,000	-	-
Contributions to Water Conservation Fund	(20,000)	-	20,000	-	-
<b>TOTAL FUND BALANCE TRANSFERS</b>	<b>126,021</b>	<b>(141,020)</b>	<b>14,999</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 4,414,611</b>	<b>\$ 2,130,820</b>	<b>\$ 402,189</b>	<b>\$ 6,947,620</b>	<b>\$ 6,547,228</b>

See accompanying notes to the financial statements.

**THE DOBSON ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated Total 2017
		Reserve for Asset Replacement	Other Funds		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (Deficit) of Revenues Over Expenses	\$ 452,510	\$ (3,694)	\$ (48,424)	\$ 400,392	\$ 299,518
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Cash Provided (Used) by Operating Activities:					
Depreciation	317,931	-	-	317,931	283,339
Net Reclassification of Fixed Assets	1,906	-	-	1,906	-
Bad Debt Expense	7,578	-	-	7,578	20,331
Changes in Operating Assets and Liabilities:					
(Increase)/Decrease In:					
Accounts Receivable	(13,700)	-	-	(13,700)	(3,386)
Inventory	4,674	-	-	4,674	(1,508)
Prepaid Expenses	16,179	-	-	16,179	(2,268)
Other Assets	(734)	-	-	(734)	372
Workers' Compensation Deposit	-	-	-	-	3,421
Increase/(Decrease) In:					
Accounts Payable	-	-	-	-	(11,140)
Accrued Expenses	(56,842)	-	-	(56,842)	(27,400)
Prepaid Member Assessments	18,998	-	-	18,998	(38,383)
Prepaid Newsletter Advertising	(7)	-	-	(7)	548
Prepaid Preschool Tuition	-	-	-	-	(708)
Other Liabilities	2,670	-	-	2,670	(5,581)
Net Cash Provided (Used) by Operating Activities	<u>751,163</u>	<u>(3,694)</u>	<u>(48,424)</u>	<u>699,045</u>	<u>517,155</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of Treasury Bills	(2,327,528)	(3,092,988)	(399,213)	(5,819,729)	-
Reinvest Interest Earned	(581)	(888)	(105)	(1,574)	-
Proceeds from Maturity of Treasury Bills	825,000	1,260,000	150,000	2,235,000	-
Proceeds from Maturity of Certificates of Deposits					459,719
Purchase of Property and Equipment	(446,021)	-	-	(446,021)	(437,851)
Net Cash Provided (Used) by Investing Activities	<u>(1,949,130)</u>	<u>(1,833,876)</u>	<u>(249,318)</u>	<u>(4,032,324)</u>	<u>21,868</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Capitalized Fixed Asset Transfers	446,021	(341,020)	(105,001)	-	-
Contributions to Reserve Fund	(200,000)	200,000	-	-	-
Contribution to Water Conservation Fund	(20,000)	-	20,000	-	-
Contribution to Capital Fund	(100,000)	-	100,000	-	-
Net Cash Provided (Used) by Financing Activities	<u>126,021</u>	<u>(141,020)</u>	<u>14,999</u>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,071,946)	(1,978,590)	(282,743)	(3,333,279)	539,023
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,019,630</u>	<u>2,275,534</u>	<u>435,614</u>	<u>4,730,778</u>	<u>4,191,755</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 947,684</u>	<u>\$ 296,944</u>	<u>\$ 152,871</u>	<u>\$ 1,397,499</u>	<u>\$ 4,730,778</u>
<b><u>SUPPLEMENTARY INFORMATION</u></b>					
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense Paid	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 1 - NATURE OF THE ORGANIZATION**

The Dobson Association, Inc., a not-for-profit homeowners' association, was incorporated April 17, 1973. The Association provides for the operation, maintenance and preservation of recreational facilities, lakes, property and common areas within the community of Dobson Ranch. At December 31, 2018, there were 4,955 billable units owned by residents, located on approximately 2,000 acres in Mesa, Arizona. The Association is managed by a paid staff, with the Board of Directors providing oversight and policy making. The Board of Directors also approves and implements an annual financial budget from which the Association operates.

**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 for Asset Replacement Fund

The Reserve for Asset Replacement Fund is used to account for the use and accumulation of funds for future major repairs and replacements.

Other Funds

Other funds are used to account for the financial transactions of new common property and equipment purchased by the Association, community beautification and landscaping activities, and water conservation activities.

Assessments Collected in Advance

Payments received by the Association prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is recorded as revenue by the Association on a monthly basis.

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 maturity dates of three months or less, as cash and cash equivalents.

Inventory

Inventory consists primarily of movie and similar local activity tickets and is stated at the lower of cost or market value. Cost is determined under the first-in, first-out (FIFO) method.

See independent auditor's report.



**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**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.

Property and Equipment

The Association capitalizes all common real property purchased with Association funds, to which it has title or other evidence of ownership, and with a cost of \$5,000 or more. Purchased real property is recorded at cost and depreciated using the straight-line depreciation method over the useful life of the asset.

At December 31, 2018 and 2017, the common real property capitalized consisted of:

- (A) La Casita Community Center
- (B) The Saratoga Recreation Center
- (C) The Los Altos Recreation Center
- (D) Various other real property improvements

Property not capitalized consists of land, landscape rights-of-way and seven lakes.

The Association also capitalizes personal property with a purchase price of \$2,500 or more that it acquires. Purchased personal property and equipment is recorded at cost and depreciated using the straight-line depreciation method over the useful lives of the property and equipment ranging from 3 to 30 years.

Treasury Bills

The Association invests in Treasury Bills that generally mature in three months or less. The Association intends to hold Treasury Bills until maturity. Treasury Bills are recorded at cost and the investments with maturity dates not exceeding one year are classified as short-term investments.

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.

Date of Management's Review

Subsequent events have been evaluated through March 15, 2019, which is the date the financial statements were available to be issued.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by fund category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2017, from which the summarized information was derived. Certain classifications may have been changed from the prior reporting period. The comparative information for the year ended December 31, 2017, has been restated as explained in Note 14 – Prior Period Adjustment.

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 3 - CASH AND CASH EQUIVALENTS**

As of December 31, 2018 and 2017, the cash and cash equivalent balances were as follows:

	2018		2017	
	Operating	Reserve and Other Funds	Total	Total
General Checking Accounts	\$ 742,639	\$ 9,066	\$ 751,705	\$ 1,924,627
General Savings Accounts	30,563	-	30,563	1,346,218
NOW Accounts	-	-	-	124,542
Money Market Accounts	174,152	440,749	614,901	1,335,061
Petty Cash	330	-	330	330
Total	<u>\$ 947,684</u>	<u>\$ 449,815</u>	<u>\$ 1,397,499</u>	<u>\$ 4,730,778</u>

The cash listed as operating is available for current operations and is not bound by any restriction or designation. Cash listed as reserve and other is designated by the Board of Directors for future major repairs and replacements and is generally not available for current operations.

**NOTE 4 - INVESTMENTS IN TREASURY BILLS**

The Treasury Bills for the year ended December 31, 2018, being held in the Operating, Reserve, and Capital Funds, had a value of \$3,586,488 and earned interest at rates ranging from 2.260% to 2.490%, with maturity dates ranging from one to six months. The Board of Directors started investing funds in one to six month Treasury Bills during 2018, which currently have higher interest rates than Certificates of Deposit. It is the Association's intent to hold these investments to maturity.

**NOTE 5 - ACCOUNTS AND OTHER RECEIVABLES**

Association members are subject to quarterly assessments, which are used to pay for operating expenses, capital improvements, the Water Conservation Fund and major repairs and future replacements. The actual billed assessment rates, on a quarterly basis, in 2018 and 2017 were \$138.60.

Accounts receivable at December 31, 2018 and 2017, represent assessments due, late fees charged on overdue accounts, lien fees on delinquent accounts, and legal fees on accounts in default. Accounts not paid within 30 days of the due date are assessed an additional fee each month the accounts remain delinquent. The Association's policy is to place liens on units with accounts overdue 125 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. The Association's assessments are secured via real property and every reasonable effort is applied in attempting to collect assessments receivable. However, some receivables have historically proven to be uncollectible.

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 5 - ACCOUNTS AND OTHER RECEIVABLES (CONTINUED)**

Accounts and other receivables consisted of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assessments Receivable	\$ 72,605	\$ 50,059
Fees Receivable	51,209	75,780
Fines Receivable	<u>28,717</u>	<u>24,127</u>
Total Accounts Receivable	152,531	149,966
Less: Allowance for Doubtful Accounts	<u>(65,900)</u>	<u>(69,457)</u>
Total Net Receivables	<u>\$ 86,631</u>	<u>\$ 80,509</u>

Total bad debt expense for the years ended December 31, 2018 and 2017, was \$7,578 and \$20,331, respectively. In December 31, 2018 and 2017, an allowance for doubtful accounts for Accounts Receivable was recorded in the amount of \$65,900 and \$69,457, respectively. Accounts Receivable past due greater than 90 days at December 31, 2018 and 2017, totaled \$137,413 and \$138,895, respectively.

**NOTE 6 – WATER CONSERVATION FUND COMMITMENTS**

The Association entered into a settlement agreement with the Arizona Department of Water Resources under the Third Management Plan. The arrangement stipulates that the Association shall contribute \$20,000 annually, beginning July 1, 2001, and continuing for ten years, to a Water Conservation Fund. The arrangement was extended to include 2012 through 2019. The use of the funds is restricted to the purposes set out in the agreement. The Association is prohibited from spending money from the fund unless the expenditure is first approved, in writing, in a timely manner by a representative of the Arizona Department of Water Resources. The Stipulation and Order on Review, resolves all issues raised by the Association in its application for administrative review and eliminates any liability the Association may have had under the Second Management Plan Stipulation for having exceeded its yearly water allotments in some years.

**NOTE 7 - INCOME TAXES**

The Association has received from the Internal Revenue Service an exemption from federal income taxes under Section 501(c)(4) of the Internal Revenue Code for exempt function income earned. A provision is made in the financial statements for income taxes on unrelated trade or business income earned, when required.

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 8 - PROPERTY AND EQUIPMENT**

Depreciation expense for the years ended December 31, 2018 and 2017, was \$317,931 and \$283,339, respectively. The Association also reported Property and Equipment in Process that was not in use as of December 31, 2018 and 2017, with a value of \$111,991 and \$166,378, respectively. Depreciable Property and Equipment in use as of December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Equipment		
Administration	\$ 123,814	\$ 107,411
Recreation	89,917	73,592
Lake Maintenance	219,544	198,948
Common Area Maintenance	118,298	118,298
Total Equipment	<u>551,573</u>	<u>498,249</u>
Vehicles	240,427	220,426
Buildings and Improvements	<u>5,503,930</u>	<u>5,108,657</u>
Total Property and Equipment	6,295,930	5,827,332
Less: Accumulated Depreciation	<u>(4,052,614)</u>	<u>(3,764,403)</u>
Net Property and Equipment	<u>\$ 2,243,316</u>	<u>\$ 2,062,929</u>

**NOTE 9 - RESERVE FOR ASSET REPLACEMENT FUND EXPENDITURES**

The following major repairs and/or replacements were paid out of reserve for asset replacement funds specifically set aside for such purposes for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purchase of Property & Equipment	\$ 341,020	\$ 306,039
Major Repair Expenditures	<u>18,255</u>	<u>78,408</u>
Major Reserve Fund Expenditures	<u>\$ 359,275</u>	<u>\$ 384,447</u>

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 10 - TRANSFERS TO RESERVE FOR ASSET REPLACEMENT FUND**

The Association is accumulating funds for future major repairs and replacements. The annual provision to the reserve funds is determined by the Board of Directors and is based, in part, on projected reserve expenses derived in an Update "With No-Site-Visit" Reserve Study, dated May 16, 2017, by a licensed contractor. The study provides an independent estimate of the future major repair and replacement costs of buildings, improvements and related equipment. The reserve for asset replacement fund represents funds restricted by the Board to meet these anticipated expenses. The funds set aside each year are generated from member assessments, net of operating expenses, and other net revenues. These funds are held in various short and long-term investments and are generally not available for operating purposes.

Actual expenditures may vary from the estimated amounts determined by the study, and the variations may be material. Therefore, amounts accumulated in the reserve for asset replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association may increase regular assessments, levy special assessments, subject to member approval, or may delay major repairs and replacements until funds are available. During the years ended December 31, 2018 and 2017, the Association contributed \$200,000 and \$632,209, respectively, to the Reserve for Asset Replacement Fund.

**NOTE 11 - CONCENTRATION OF CREDIT RISK**

The financial instruments that potentially subject the Association to credit risk consist principally of assessments receivable, 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 did not comply with the terms of the Covenants, Conditions and Restrictions, and collection efforts by the Association were unsuccessful, The Dobson Association, Inc. could incur a loss equal to the amount due.

The Association has net assessments and other receivables at December 31, 2018 and 2017, totaling \$86,631 and \$80,509, respectively, which are subject to a significant concentration of credit risk, given that the receivables are entirely within the homeowner association industry, and primarily from a small geographical area, which can be impacted by similar economic conditions.

The Association maintains its cash and investment deposits with various financial institutions. The Association places its cash deposits with financial institutions in checking, savings, money market, and NOW accounts, which are secured by the Federal Deposit Insurance Corporation (FDIC) coverage up to \$250,000 for all accounts held in each financial institution. The Association also maintains investment accounts in a brokerage account, which are covered up to \$500,000, limited to \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). At various times, deposits with these financial institutions, designated as cash and cash equivalents and investments, may exceed insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC), or other types of insurance programs. Those funds that exceeded FDIC insurance limits were covered by bonds held with Liberty Mutual Insurance Company, with Certificates of Suretyship provided by the financial institution.

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 12 - OPERATING LEASE OBLIGATION**

The Association entered into a 39 month operating lease in December 2017 for office copier equipment. The office equipment rental expense for 2018 was \$6,613, including \$6,120 for the base lease payment and \$493 for taxes, which is included in office equipment rental and maintenance expense. The lease called for minimum monthly payments of \$551.06, which includes the \$510 monthly lease and \$41.06 in taxes.

The minimum future lease payments are as follows:

<u>Years Ending December 31,</u>	
2019	\$ 6,120
2020	6,120
2021	<u>1,530</u>
Total Future Minimum Payments	<u><u>\$ 13,770</u></u>

**NOTE 13 - UNCERTAIN TAX POSITIONS**

The Association received, from the Internal Revenue Service, an exemption from federal income taxes under Section 501 (c) (4) of the Internal Revenue Code for earned exempt function income. 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, 2018.

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, 2018.

The Association believes that its income tax filing position 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 positions at December 31, 2018.

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 2016, or by Arizona state tax authorities for years before 2015.

See independent auditor’s report.

**THE DOBSON ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)**

**NOTE 14 – PRIOR YEAR ADJUSTMENT**

The Association adjusted the Operating Fund balance downward by \$20,777 to allocate expense recorded in the year ended December 21, 2018, to prior years. The prior period adjustment of \$20,777 of Workers' Compensation insurance included \$14,823 of additional Workers' Compensation expenses that occurred in the year ended December 31, 2017, and \$5,954 that was incurred in years prior to the year ended in December 31, 2017, which are reflected in the restated comparative financial statement values.

See independent auditor's report.



**THE DOBSON ASSOCIATION, INC.**

---

SUPPLEMENTARY  
INFORMATION



[www.ButlerHansen.com](http://www.ButlerHansen.com)



**THE DOBSON ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON**  
**FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
**DECEMBER 31, 2018**

The Board of Directors of The Dobson Association, Inc. authorized management to engage an independent consulting company to perform an Update “With No-Site-Visit” Reserve Study to estimate the remaining useful lives and the replacement costs of the components of property and improvements. The study is dated May 16, 2017, and is the basis for future requirements presented in this schedule. Replacement costs were based on the estimated costs to repair or replace the components at the end of their useful lives. The component amounts, reported in the fund balance column, were allocated based on the estimated current replacement cost for presentation purposes only, and are not specifically designated among the components. The Board of Directors has the discretion to expend the accumulated funds to the various components as required.

According to the independent study completed in 2017, \$2,300,873 is the estimated fully funded balance for the reserve replacement fund at December 31, 2018. The Dobson Association, Inc.’s December 31, 2018, reserve replacement fund balance of \$2,130,820 approximates 93% of the estimated fully funded balance required at December 31, 2018.

The following table presents significant information about the components of property and improvements:

<u>Components</u>	<u>Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Fund Balance at 12/31/2018</u>
La Casita Clubhouse Exterior	1 to 13	\$ 117,150	\$ 50,261
La Casita Clubhouse Interior	0 to 17	493,650	211,789
La Casita Recreation Center	0 to 16	536,550	230,195
La Casita Pool Area	0 to 22	350,050	150,181
Los Altos Recreation Center	0 to 29	382,750	164,210
Los Altos Pool Area	0 to 13	282,350	121,136
Saratoga Recreation Center	0 to 29	203,380	87,256
Saratoga Pool Area	1 to 10	99,100	42,517
Laguna Park	5 to 34	294,350	126,283
Laguna Shores Tennis Courts	1 to 29	159,700	68,516
Brookedge Estates Tennis Court	4 to 24	36,100	15,488
Dobson Pines Garden	10	8,700	3,733
Dennis Kavanaugh Park & Lake #2	0 to 32	93,750	40,221
Mini Park & Lake #3	0 to 33	128,200	55,001
Rose Garden Park	5	3,950	1,695
Maintenance Yard	0 to 17	333,000	142,866
Northern Common Area	0 to 34	894,050	383,572
Southern Common Area	0 to 37	549,850	235,900
<b>Total</b>		<b>\$ 4,966,630</b>	<b>\$ 2,130,820</b>

See independent auditor’s report.

**THE DOBSON ASSOCIATION, INC.**  
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated Total 2017
		Reserve for Asset Replacement	Other Funds		
<b>REVENUES</b>					
Homeowner Assessments	\$ 2,747,191	\$ -	\$ -	\$ 2,747,191	\$ 2,747,052
Commercial Assessments	45,982	-	-	45,982	42,375
Late Fees	22,354	-	-	22,354	21,261
Dishonored Check Fees	359	-	-	359	359
CC&R Fines	8,175	-	-	8,175	3,714
Legal Fees Reimbursement	5,536	-	-	5,536	7,117
Collection Fees Reimbursement	11,152	-	-	11,152	25,521
License and ID Card Fees	5,153	-	-	5,153	6,190
Miscellaneous Income	4,173	-	-	4,173	-
Transfer and Disclosure Fees	147,925	-	-	147,925	166,600
Delinquent Interest Fees	(853)	-	-	(853)	(1,704)
Investment Interest	8,081	14,561	2,977	25,619	6,364
Social Activities Income	98,128	-	-	98,128	95,905
Rental Registration Fees	5,310	-	-	5,310	6,075
Insurance Claim Income	22,988	-	-	22,988	-
Facility and Equipment Rental Income	26,756	-	-	26,756	32,837
Preschool Tuition Income	57,012	-	-	57,012	57,822
Newsletter Advertising	52,643	-	-	52,643	50,471
Gain (Loss) on Asset Disposal	-	-	-	-	650
Escrow Rush Fee	1,250	-	-	1,250	950
LPV Water Revenue	1,061	-	-	1,061	1,061
Dock Boat Slip Rental	2,833	-	-	2,833	2,099
<b>TOTAL REVENUES</b>	<b>3,273,209</b>	<b>14,561</b>	<b>2,977</b>	<b>3,290,747</b>	<b>3,272,719</b>

**EXPENSES**

**GENERAL AND ADMINISTRATIVE**

Administrative Compensation	486,043	-	-	486,043	569,394
Assessment Collection Costs	21,731	-	-	21,731	27,937
Bank and Finance Charges	33,187	-	-	33,187	30,028
Computer Service	78,260	-	-	78,260	67,230
Contract Labor - Office	21,451	-	-	21,451	15,156
Dues and Subscriptions	8,633	-	-	8,633	3,725
Training and Travel	4,966	-	-	4,966	11,753
Property and Liability Insurance	73,626	-	-	73,626	61,470
Legal Fees	41,637	-	-	41,637	21,020
Marketing	2,740	-	-	2,740	8,397
Miscellaneous Administrative	2,735	-	-	2,735	1,912
Newsletter	91,228	-	-	91,228	88,116
Office Supplies and Equipment	24,126	-	-	24,126	23,931
Postage	13,920	-	-	13,920	14,453
Printing	10,100	-	-	10,100	4,723
Property Taxes	272	-	-	272	218
Reserve Study	3,400	-	-	3,400	3,345
Uniforms - Administrative	778	-	-	778	1,685
Website Development	1,553	-	-	1,553	2,068
Scan/Digital Files	3,663	-	-	3,663	6,046
CC&R Software Monthly Fee	-	-	-	-	2,961
Contingency Fund	27,263	-	-	27,263	20,037
Total General and Administrative	951,312	-	-	951,312	985,605

(CONTINUED)

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated
		Reserve for Asset Replacement	Other Funds		Total 2017
<b>BOARD OF DIRECTORS</b>					
Public Relations	5,089	-	-	5,089	5,011
Annual Meeting	8,252	-	-	8,252	5,096
Audit and Tax Preparation Fees	14,380	-	-	14,380	12,419
Monthly Meetings	2,620	-	-	2,620	2,321
Dues and Publications	200	-	-	200	1,163
Computer Service	4,488	-	-	4,488	4,209
Sponsorships	750	-	-	750	1,550
Total Board of Directors	35,779	-	-	35,779	31,769
<b>LAKES</b>					
Salt River Project - Water	23,941	-	-	23,941	23,239
Maintenance and Repair	4,300	-	-	4,300	2,049
Chemicals	9,802	-	-	9,802	8,133
Attorney Fees - Water Issues	718	-	-	718	663
Fish	14,241	-	-	14,241	14,171
Aerators	-	-	-	-	18
Service and Testing	8,108	-	-	8,108	4,200
Tools and Equipment	-	-	-	-	7
Total Lakes	61,110	-	-	61,110	52,480
<b>LANDSCAPING/Common Areas</b>					
Landscaping Compensation	260,087	-	-	260,087	284,600
Contract Labor - Landscaping	20,722	-	-	20,722	16,774
Irrigation System	12,507	-	-	12,507	7,933
Trees and Shrubs	5,501	-	-	5,501	9,885
Seasonal Plants	4,579	-	-	4,579	4,302
Fertilizer/Pesticide/Herbicide	6,982	-	-	6,982	5,394
Overseeding	11,106	-	-	11,106	11,021
Tools and Equipment	5,787	-	-	5,787	4,695
Uniforms - Landscaping	2,425	-	-	2,425	2,741
Training and Travel	591	-	-	591	730
Total Landscaping/Common Areas	330,287	-	-	330,287	348,075
<b>MAINTENANCE</b>					
Maintenance Compensation	246,466	-	-	246,466	313,863
Fence Maintenance and Repair	-	-	-	-	78
Janitorial Service and Supplies	31,666	-	-	31,666	29,712
Vehicle Maintenance and Repair	21,998	-	-	21,998	22,153
Supplies - Maintenance	5,351	-	-	5,351	6,416
Building Maintenance and Repair	14,656	-	-	14,656	17,413
Contract Labor - Maintenance	12,677	-	-	12,677	9,790
Tools and Equipment	4,242	-	-	4,242	7,302
Equipment Maintenance and Repair	5,887	-	-	5,887	2,924
Fence Replacement Co-Share	-	-	-	-	2,872
Common Area Maintenance and Repair	20,947	-	-	20,947	19,199
Locks/Keys/Signage	11,789	-	-	11,789	3,766
Uniforms - Maintenance	2,666	-	-	2,666	2,793
Training and Travel	302	-	-	302	905
Electrical Maintenance and Repair	14,379	-	-	14,379	9,648
Pool Maintenance	41,167	-	-	41,167	29,515
Total Maintenance	434,193	-	-	434,193	478,349

(CONTINUED)

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated
		Reserve for Asset Replacement	Other Funds		Total 2017
<b>PRESCHOOL</b>					
Preschool Compensation	47,590	-	-	47,590	50,205
Insurance and Permits	3,146	-	-	3,146	3,315
Supplies	2,718	-	-	2,718	2,330
Total Preschool	53,454	-	-	53,454	55,850
<b>RECREATION CENTERS AND POOL</b>					
Recreation Compensation	299,126	-	-	299,126	301,510
Recreation/Sports Supplies	4,316	-	-	4,316	3,756
Uniforms - Recreation	1,918	-	-	1,918	1,655
Training and Travel	3,340	-	-	3,340	4,939
Recreation Center Events	52,190	-	-	52,190	53,316
Contract Services	1,412	-	-	1,412	943
HO Event Officer Fees	-	-	-	-	73
Instructor Fees	1,487	-	-	1,487	2,295
Reserve Threshold Contingency	2,681	-	-	2,681	11,500
Software Maintenance	10,911	-	-	10,911	10,610
Total Recreation Centers and Pool	377,381	-	-	377,381	390,597
<b>UTILITIES</b>					
City Water	125,712	-	-	125,712	115,883
Electricity	58,148	-	-	58,148	58,066
Telephone	33,872	-	-	33,872	27,342
Solid Waste	19,638	-	-	19,638	20,623
Waste Water	10,627	-	-	10,627	5,806
Natural Gas	811	-	-	811	879
Total Utilities	248,808	-	-	248,808	228,599
<b>OTHER EXPENDITURES</b>					
Watercraft	2,866	-	-	2,866	4,414
Depreciation	317,931	-	-	317,931	283,339
Bad Debt Expense	7,578	-	-	7,578	20,331
Subassociation Fund Expenses	-	-	9,643	9,643	2,850
Water Conservation Fund Expenses	-	-	19,856	19,856	10,275
Capital Fund Expenses	-	-	21,902	21,902	2,260
Reserve Fund Expenses	-	18,255	-	18,255	78,408
Total Other Expenditures	328,375	18,255	51,401	398,031	401,877
<b>TOTAL EXPENSES</b>	<b>2,820,699</b>	<b>18,255</b>	<b>51,401</b>	<b>2,890,355</b>	<b>2,973,201</b>

(CONTINUED)

See independent auditor's report.

**THE DOBSON ASSOCIATION, INC.**  
**SUPPLEMENTARY SCHEDULE OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCES (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2018**  
**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2017)**

	Operating Fund	Reserve Funds		Total 2018	Restated
		Reserve for Asset Replacement	Other Funds		Total 2017
<b>EXCESS REVENUES (EXPENSES)</b>	452,510	(3,694)	(48,424)	400,392	299,518
<b>FUND BALANCES, BEGINNING OF YEAR</b>	3,836,080	2,275,534	435,614	6,547,228	6,253,664
<b>Prior Period Adjustment</b>	-	-	-	-	(5,954)
<b>FUND BALANCES RESTATED, BEGINNING OF YEAR</b>	3,836,080	2,275,534	435,614	6,547,228	6,247,710
<b>FUND BALANCE TRANSFERS</b>					
Capitalized Fixed Asset Transfers	446,021	(341,020)	(105,001)	-	-
Contributions from Operating	(300,000)	200,000	100,000	-	-
Contributions to Water Conservation Fund	(20,000)	-	20,000	-	-
Total Transfers	126,021	(141,020)	14,999	-	-
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 4,414,611</u>	<u>\$ 2,130,820</u>	<u>\$ 402,189</u>	<u>\$ 6,947,620</u>	<u>\$ 6,547,228</u>

See independent auditor's report.