



THE DOBSON ASSOCIATION, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019
AND FOR THE YEAR THEN ENDED
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF
DECEMBER 31, 2018 AND FOR THE YEAR THEN ENDED)



THE DOBSON ASSOCIATION, INC.

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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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated March 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 schedule of revenues, expenses and changes in fund balances, on pages 15 - 17, 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, PLLC

Gilbert, Arizona
March 31, 2020

THE DOBSON ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	\$ 1,253,053	\$ 370,679	\$ 155,934	\$ 1,779,666	\$ 1,397,499
Investments	1,101,711	2,411,236	206,383	3,719,330	3,586,488
Accounts Receivable, Net of Allowance of \$58,498 and \$65,900 - 2019 and 2018, respectively	77,772	-	-	77,772	86,631
Commercial Assessments Receivable	1,915	-	-	1,915	-
Prepaid Expenses	21,508	-	-	21,508	590
Other Assets	1,463	-	-	1,463	4,735
Inventory	4,382	-	-	4,382	2,438
Interfund Balance	10,862	(10,695)	(167)	-	-
TOTAL CURRENT ASSETS	2,472,666	2,771,220	362,150	5,606,036	5,078,381
OTHER ASSETS					
Net Property and Equipment	2,243,598	-	-	2,243,598	2,243,316
Property and Equipment, In Process	24,364	-	-	24,364	111,991
TOTAL OTHER ASSETS	2,267,962	-	-	2,267,962	2,355,307
TOTAL ASSETS	\$ 4,740,628	\$ 2,771,220	\$ 362,150	\$ 7,873,998	\$ 7,433,688
LIABILITIES AND FUND BALANCES					
CURRENT LIABILITIES					
Accounts Payable	\$ 28,815	\$ -	\$ -	\$ 28,815	\$ -
Accrued Expenses	54,194	-	6,615	60,809	39,795
Prepaid Member Assessments	455,486	-	-	455,486	424,948
Prepaid Newsletter Advertising	7,322	-	-	7,322	11,730
Other Liabilities	3,245	-	-	3,245	9,595
TOTAL CURRENT LIABILITIES	549,062	-	6,615	555,677	486,068
FUND BALANCES					
TOTAL FUND BALANCES	4,191,566	2,771,220	355,535	7,318,321	6,947,620
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,740,628	\$ 2,771,220	\$ 362,150	\$ 7,873,998	\$ 7,433,688

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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
REVENUES					
Homeowner Assessments	\$ 2,734,533	\$ -	\$ -	\$ 2,734,533	\$ 2,747,191
Commercial Assessments	44,179	-	-	44,179	45,982
Service Charges, Transfer and Other Fees	272,666	-	-	272,666	199,801
Investment Income	33,741	50,864	6,589	91,194	25,619
Social and Recreational Activities	104,958	-	-	104,958	98,128
Rental Registration Fees	5,500	-	-	5,500	5,310
Insurance Claim Income	-	-	-	-	22,988
Facility and Equipment Rental Income	32,923	-	-	32,923	26,756
Preschool Tuition Income	63,675	-	-	63,675	57,012
Newsletter Advertising	46,755	-	-	46,755	52,643
Other Income	10,830	-	1,390	12,220	9,317
TOTAL REVENUES	3,349,760	50,864	7,979	3,408,603	3,290,747
EXPENSES					
Administrative	962,423	-	-	962,423	951,312
Board of Directors	47,520	-	-	47,520	35,779
Lakes	100,788	-	-	100,788	61,110
Landscaping	325,795	-	-	325,795	330,287
Maintenance	457,578	-	-	457,578	434,193
Preschool	55,333	-	-	55,333	53,454
Recreation	392,001	-	-	392,001	377,381
Utilities	272,678	-	-	272,678	248,808
Watercraft	3,342	-	-	3,342	2,866
Depreciation	298,921	-	-	298,921	317,931
Bad Debt Expense	(6,998)	-	-	(6,998)	7,578
Subassociation Fund Expenses	-	-	523	523	9,643
Water Conservation Fund Expenses	-	-	15,790	15,790	19,856
Capital Fund Expenses	-	-	1,262	1,262	21,902
Reserve Fund Expenses	-	110,946	-	110,946	18,255
TOTAL EXPENSES	2,909,381	110,946	17,575	3,037,902	2,890,355
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	440,379	(60,082)	(9,596)	370,701	400,392
FUND BALANCES, BEGINNING OF YEAR	4,414,611	2,130,820	402,189	6,947,620	6,547,228
TRANSFERS BETWEEN FUNDS					
Capitalized Fixed Asset Transfers	214,576	(157,518)	(57,058)	-	-
Contributions from Operating	(858,000)	858,000	-	-	-
Contributions to Water Conservation Fund	(20,000)	-	20,000	-	-
TOTAL TRANSFERS BETWEEN FUNDS	(663,424)	700,482	(37,058)	-	-
FUND BALANCES, END OF YEAR	\$ 4,191,566	\$ 2,771,220	\$ 355,535	\$ 7,318,321	\$ 6,947,620

See accompanying notes to the financial statements.

THE DOBSON ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
CASH FLOWS FROM OPERATING ACTIVITIES					
Excess (Deficit) of Revenues Over Expenses	\$ 440,379	\$ (60,082)	\$ (9,596)	\$ 370,701	\$ 400,392
Adjustments to Reconcile Excess (Deficit) of Revenues Over Expenses to Cash Provided (Used) by Operating Activities:					
Depreciation	298,921	-	-	298,921	317,931
Net Reclassification of Fixed Assets	-	-	-	-	1,906
Bad Debt Expense	(6,998)	-	-	(6,998)	7,578
Changes in Operating Assets and Liabilities:					
(Increase)/Decrease In:					
Accounts Receivable	22,855	-	-	22,855	(13,700)
Commercial Assessments Receivable	(1,915)	-	-	(1,915)	-
Prepaid Expenses	(20,918)	-	-	(20,918)	16,179
Other Assets	3,272	-	-	3,272	(734)
Inventory	(1,944)	-	-	(1,944)	4,674
Increase/(Decrease) In:					
Accounts Payable	28,815	-	-	28,815	-
Accrued Expenses	14,398	-	6,615	21,013	(56,842)
Prepaid Member Assessments	30,538	-	-	30,538	18,998
Prepaid Newsletter Advertising	(4,408)	-	-	(4,408)	(7)
Other Liabilities	(6,350)	-	-	(6,350)	2,670
Net Cash Provided (Used) by Operating Activities	<u>796,645</u>	<u>(60,082)</u>	<u>(2,981)</u>	<u>733,582</u>	<u>699,045</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of Investments	(3,746,564)	(5,944,898)	(606,433)	(10,297,895)	(5,819,729)
Reinvest Interest Earned	(28,503)	(1,462)	(7,632)	(37,597)	(1,574)
Proceeds from Maturity of Investments	4,172,653	5,369,000	657,000	10,198,653	2,235,000
Purchase of Property and Equipment	(214,576)	-	-	(214,576)	(446,021)
Net Cash Provided (Used) by Investing Activities	<u>183,010</u>	<u>(577,360)</u>	<u>42,935</u>	<u>(351,415)</u>	<u>(4,032,324)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Capitalized Fixed Asset Transfers	214,576	(157,518)	(57,058)	-	-
Contributions to Reserve Fund	(858,000)	858,000	-	-	-
Contribution to Water Conservation Fund	(20,000)	-	20,000	-	-
Change in Interfund Balance	(10,862)	10,695	167	-	-
Net Cash Provided (Used) by Financing Activities	<u>(674,286)</u>	<u>711,177</u>	<u>(36,891)</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	305,369	73,735	3,063	382,167	(3,333,279)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>947,684</u>	<u>296,944</u>	<u>152,871</u>	<u>1,397,499</u>	<u>4,730,778</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,253,053</u>	<u>\$ 370,679</u>	<u>\$ 155,934</u>	<u>\$ 1,779,666</u>	<u>\$ 1,397,499</u>
<u>SUPPLEMENTARY INFORMATION</u>					
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense Paid	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

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, 2019, 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.

Accounts Receivable

The annual budget and member assessments are approved by the Board of Directors. Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and future replacements. Assessments receivable at December 31, 2019, represent fees due from homeowners. The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 90 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 quarterly basis.

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net realizable value. Cost is determined under the first-in, first-out (FIFO) method.

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, 2019 and 2018, 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.

Investments

The Association invests in Treasury Bills that generally mature in six 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 31, 2020, which is the date the financial statements were available to be issued.

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, from which the summarized information was derived.

NOTE 3 - CASH AND CASH EQUIVALENTS

As of December 31, 2019 and 2018, the cash and cash equivalent balances were as follows:

	2019			2018
	Operating	Reserve and Other Funds	Total	Total
General Checking Accounts	\$ 828,726	\$ 14,609	\$ 843,335	\$ 751,705
General Savings Accounts	230,726	-	230,726	30,563
Money Market Accounts	193,121	512,004	705,125	614,901
Petty Cash	480	-	480	330
Total	\$ 1,253,053	\$ 526,613	\$ 1,779,666	\$ 1,397,499

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

The Treasury Bills for the year ended December 31, 2019, being held in the Operating, Reserve, and Capital Funds, had a value of \$3,719,330 and earned interest at rates ranging from 1.52% to 2.07%, with maturity dates ranging from three to six months. The Board of Directors started investing funds in three 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 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance, as ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, and ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC).

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 5 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (CONTINUED)

Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate—Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services that satisfy the performance obligation are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the requirements of this new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019.

However, adoption of the new guidance did not result in changes as to how revenue for the Association is reported. Because the adoption of the new revenue recognition guidance did not result in retrospective treatment of the financial statements, no related disclosures are being reported.

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts and other receivables consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assessments Receivable	\$ 49,364	\$ 72,605
Fees Receivable	49,513	51,209
Fines Receivable	37,393	28,717
Commercial Assessments Receivable	<u>1,915</u>	<u>-</u>
Total Accounts Receivable	138,185	152,531
Less: Allowance for Doubtful Accounts	<u>(58,498)</u>	<u>(65,900)</u>
Total Net Receivables	<u>\$ 79,687</u>	<u>\$ 86,631</u>

Total bad debt expense for the years ended December 31, 2019 and 2018, was (\$6,998) and \$7,578, respectively. In December 31, 2019 and 2018, an allowance for doubtful accounts for Accounts Receivable was recorded in the amount of \$58,498 and \$65,900, respectively. Accounts Receivable past due greater than 90 days at December 31, 2019 and 2018, totaled \$116,996 and \$137,413, respectively.

NOTE 7 - MEMBER ASSESSMENTS

Association members are subject to annual assessments, billed on a quarterly basis, to provide funds for the Association's operating expenses and major repairs and replacements. During 2019, the combined annual assessment was \$552, payable in quarterly installments of \$138. 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 DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 7 - MEMBER ASSESSMENTS (CONTINUED)

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. There is no maximum annual assessment defined in the Association's governing documents.

At December 31, 2019, the Association had delinquent assessments of \$51,279. 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 \$72,605 and \$51,279, respectively.

NOTE 8 - 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 to a Water Conservation Fund. The Dobson Association's agreement with the Arizona Department of Water Resources carries the Fund and the annual contribution forward until replaced by the Fourth Management Plan on January 1, 2023. 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 9 - 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.

NOTE 10 - 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purchase of Property & Equipment	\$ 157,518	\$ 341,020
Major Repair Expenditures	<u>110,946</u>	<u>18,255</u>
Major Reserve Fund Expenditures	<u>\$ 268,464</u>	<u>\$ 359,275</u>

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 11 - PROPERTY AND EQUIPMENT

Depreciable Property and Equipment in use as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Equipment		
Administration	\$ 123,814	\$ 123,814
Recreation	89,917	89,917
Lake Maintenance	234,538	219,544
Common Area Maintenance	118,298	118,298
Total Equipment	566,567	551,573
Vehicles	249,641	240,427
Buildings and Improvements	5,778,926	5,503,930
Total Property and Equipment	6,595,134	6,295,930
Less: Accumulated Depreciation	(4,351,536)	(4,052,614)
Net Property and Equipment	\$ 2,243,598	\$ 2,243,316

Depreciation expense for the years ended December 31, 2019 and 2018, was \$298,921 and \$317,931, respectively. The Association also reported Property and Equipment in Process that was not in use as of December 31, 2019 and 2018, with a value of \$24,364 and \$111,991, respectively.

NOTE 12 - 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 November 8, 2019, 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, 2019 and 2018, the Association contributed \$858,000 and \$200,000, respectively, to the Reserve for Asset Replacement Fund.

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 13 - CONCENTRATION OF CREDIT RISK

The Association's primary source of revenue is member assessments, which are earned on assessable lots or parcels located within a small geographic area. Member assessments and related receivables are subject to concentration of credit risk, given that they are 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 has net assessments and other receivables at December 31, 2019 and 2018, totaling \$79,687 and \$86,631, 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 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.

NOTE 14 - 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 2019 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>	
2020	\$ 6,120
2021	<u>1,530</u>
Total Future Minimum Payments	<u>\$ 7,650</u>

NOTE 15 - INCOME TAXES

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, 2019.

THE DOBSON ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 16 - 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, 2019.

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, 2019.

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 2017, or by Arizona state tax authorities for years before 2016.

NOTE 17 - SUBSEQUENT EVENT

Subsequent to December 31, 2019, but before issuance of the December 31, 2019 financial statements, 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 bad debt losses, contract modifications, inadequate reserve funding, or other unforeseen circumstances could occur.



THE DOBSON ASSOCIATION, INC.

SUPPLEMENTARY
INFORMATION



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THE DOBSON ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019

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 November 8, 2019 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 2019, \$2,854,507 is the estimated fully funded balance for the reserve replacement fund at December 31, 2019. The Dobson Association, Inc.’s December 31, 2019, reserve replacement fund balance of \$2,771,220 approximates 97% of the estimated fully funded balance required at December 31, 2019.

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 December 31, 2019</u>
La Casita Recreation Center	0 to 28	\$ 716,935	\$ 50,345
La Casita Pool Area	0 to 19	373,730	212,145
La Casita Clubhouse Exterior	2 to 9	158,360	68,054
La Casita Clubhouse Interior	1 to 14	159,065	230,580
La Casita Club Interior – Meeting Rooms	2 to 22	209,250	150,432
La Casita Club Interior – Offices	1 to 14	175,220	164,485
Los Altos Recreation Center	1 to 28	478,295	121,338
Los Altos Pool Area	0 to 21	287,720	87,401
Los Altos Clubhouse	0 to 16	87,300	42,588
Saratoga Recreation Center	0 to 26	179,415	126,494
Saratoga Pool Area	0 to 22	106,930	68,630
Saratoga Clubhouse	2 to 16	99,635	15,514
Laguna Park	0 to 31	339,955	3,739
Laguna Shores Tennis Courts	3 to 26	69,550	40,289
Brookedge Estates Tennis Court	1 to 21	39,110	55,093
Dobson Pines Garden	7	9,450	1,697
Dennis Kavanaugh Park	0 to 29	103,390	143,105
Mini Park	0 to 30	144,925	384,221
Rose Garden Park	2	6,180	236,294
Maintenance Yard	1 to 18	302,720	130,091
Storage Yard	4 to 14	17,345	7,453
General Common Area	0 to 14	314,780	135,274
Northern Common Area	0 to 31	714,905	306
Southern Common Area	0 to 34	320,280	137,638
Lakes	0 to 24	367,695	158,014
Total		<u>\$ 5,782,140</u>	<u>\$ 2,771,220</u>

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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
REVENUES					
Homeowner Assessments	\$ 2,734,533	\$ -	\$ -	\$ 2,734,533	\$ 2,747,191
Commercial Assessments	44,179	-	-	44,179	45,982
Late Fees	24,014	-	-	24,014	22,354
Dishonored Check Fees	400	-	-	400	359
CC&R Fines	23,373	-	-	23,373	8,175
Legal Fees Reimbursement	21,482	-	-	21,482	5,536
Collection Fees Reimbursement	29,927	-	-	29,927	11,152
License and ID Card Fees	5,043	-	-	5,043	5,153
Miscellaneous Income	4,789	-	1,390	6,179	4,173
Transfer and Disclosure Fees	170,796	-	-	170,796	147,925
Delinquent Interest Fees	(2,369)	-	-	(2,369)	(853)
Investment Interest	33,741	50,864	6,589	91,194	25,619
Social Activities Income	104,958	-	-	104,958	98,128
Rental Registration Fees	5,500	-	-	5,500	5,310
Insurance Claim Income	-	-	-	-	22,988
Facility and Equipment Rental Income	32,923	-	-	32,923	26,756
Preschool Tuition Income	63,675	-	-	63,675	57,012
Newsletter Advertising	46,755	-	-	46,755	52,643
Escrow Rush Fee	1,350	-	-	1,350	1,250
LPV Water Revenue	1,282	-	-	1,282	1,061
Dock Boat Slip Rental	3,409	-	-	3,409	2,833
TOTAL REVENUES	3,349,760	50,864	7,979	3,408,603	3,290,747

EXPENSES

GENERAL AND ADMINISTRATIVE

Administrative Compensation	456,297	-	-	456,297	486,043
Assessment Collection Costs	31,576	-	-	31,576	21,731
Bank and Finance Charges	35,657	-	-	35,657	33,187
Caliber Software and Support	11,947	-	-	11,947	-
Computer Service	34,438	-	-	34,438	78,260
Contract Labor - Office	26,263	-	-	26,263	21,451
Dues and Subscriptions	5,750	-	-	5,750	8,633
Training and Travel	8,830	-	-	8,830	4,966
Property and Liability Insurance	77,281	-	-	77,281	73,626
Legal Fees	95,938	-	-	95,938	41,637
Marketing	8,548	-	-	8,548	2,740
Miscellaneous Administrative	284	-	-	284	2,735
Newsletter	99,720	-	-	99,720	91,228
Office Supplies and Equipment	27,275	-	-	27,275	24,126
Postage	11,030	-	-	11,030	13,920
Printing	7,296	-	-	7,296	10,100
Income Tax Preparation Fee	1,500	-	-	1,500	-
Property Taxes	97	-	-	97	272
Reserve Study	5,100	-	-	5,100	3,400
Southwest Access Video	6,320	-	-	6,320	-
Adobe Software License	4,664	-	-	4,664	-
State Income Taxes	50	-	-	50	-
Uniforms - Administrative	168	-	-	168	778
Website Development	6,394	-	-	6,394	1,553
Scan/Digital Files	-	-	-	-	3,663
Contingency Fund	-	-	-	-	27,263
Total General and Administrative	962,423	-	-	962,423	951,312

(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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
BOARD OF DIRECTORS					
Public Relations	5,557	-	-	5,557	5,089
Annual Meeting	5,449	-	-	5,449	8,252
Audit and Tax Preparation Fees	13,338	-	-	13,338	14,380
Monthly Meetings	3,538	-	-	3,538	2,620
Dues and Publications	215	-	-	215	200
Computer Service	4,535	-	-	4,535	4,488
Electronic Voting	13,988	-	-	13,988	-
Sponsorships	900	-	-	900	750
Total Board of Directors	47,520	-	-	47,520	35,779
LAKES					
Salt River Project - Water	25,586	-	-	25,586	23,941
Maintenance and Repair	1,370	-	-	1,370	4,300
Chemicals	6,919	-	-	6,919	9,802
Attorney Fees - Water Issues	31,512	-	-	31,512	718
Fish	18,164	-	-	18,164	14,241
Aerators	19	-	-	19	-
Service and Testing	17,181	-	-	17,181	8,108
Tools and Equipment	37	-	-	37	-
Total Lakes	100,788	-	-	100,788	61,110
LANDSCAPING/Common AREAS					
Landscaping Compensation	240,899	-	-	240,899	260,087
Contract Labor - Landscaping	29,945	-	-	29,945	20,722
Irrigation System	19,784	-	-	19,784	12,507
Trees and Shrubs	8,685	-	-	8,685	5,501
Seasonal Plants	1,015	-	-	1,015	4,579
Fertilizer/Pesticide/Herbicide	5,013	-	-	5,013	6,982
Overseeding	12,270	-	-	12,270	11,106
Tools and Equipment	5,899	-	-	5,899	5,787
Uniforms - Landscaping	1,931	-	-	1,931	2,425
Training and Travel	354	-	-	354	591
Total Landscaping/Common Areas	325,795	-	-	325,795	330,287
MAINTENANCE					
Maintenance Compensation	281,586	-	-	281,586	246,466
Janitorial Service and Supplies	28,710	-	-	28,710	31,666
Vehicle Maintenance and Repair	20,326	-	-	20,326	21,998
Supplies - Maintenance	7,408	-	-	7,408	5,351
Building Maintenance and Repair	20,449	-	-	20,449	14,656
Contract Labor - Maintenance	1,723	-	-	1,723	12,677
Tools and Equipment	1,427	-	-	1,427	4,242
Equipment Maintenance and Repair	3,221	-	-	3,221	5,887
Common Area Maintenance and Repair	23,056	-	-	23,056	20,947
Locks/Keys/Signage	3,216	-	-	3,216	11,789
Uniforms - Maintenance	2,024	-	-	2,024	2,666
Training and Travel	85	-	-	85	302
Electrical Maintenance and Repair	11,619	-	-	11,619	14,379
Pool Maintenance	52,728	-	-	52,728	41,167
Total Maintenance	457,578	-	-	457,578	434,193

(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, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018)

	Operating Fund	Reserve Funds		Total 2019	Total 2018
		Reserve for Asset Replacement	Other Funds		
PRESCHOOL					
Preschool Compensation	48,660	-	-	48,660	47,590
Insurance and Permits	3,810	-	-	3,810	3,146
Supplies	2,863	-	-	2,863	2,718
Total Preschool	55,333	-	-	55,333	53,454
RECREATION CENTERS AND POOL					
Recreation Compensation	303,285	-	-	303,285	299,126
Recreation/Sports Supplies	4,248	-	-	4,248	4,316
Uniforms - Recreation	1,967	-	-	1,967	1,918
Training and Travel	2,675	-	-	2,675	3,340
Recreation Center Events	55,239	-	-	55,239	52,190
Contract Services	1,375	-	-	1,375	1,412
Cash Short and Over	16	-	-	16	-
Instructor Fees	1,370	-	-	1,370	1,487
Reserve Threshold Contingency	9,351	-	-	9,351	2,681
Software Maintenance	12,440	-	-	12,440	10,911
Total Recreation Centers and Pool	392,001	-	-	392,001	377,381
UTILITIES					
City Water	151,685	-	-	151,685	125,712
Electricity	55,440	-	-	55,440	58,148
Telephone	36,302	-	-	36,302	33,872
Solid Waste	17,198	-	-	17,198	19,638
Waste Water	10,828	-	-	10,828	10,627
Natural Gas	1,225	-	-	1,225	811
Total Utilities	272,678	-	-	272,678	248,808
OTHER EXPENDITURES					
Watercraft	3,342	-	-	3,342	2,866
Depreciation	298,921	-	-	298,921	317,931
Bad Debt Expense	(6,998)	-	-	(6,998)	7,578
Subassociation Fund Expenses	-	-	523	523	9,643
Water Conservation Fund Expenses	-	-	15,790	15,790	19,856
Capital Fund Expenses	-	-	1,262	1,262	21,902
Reserve Fund Expenses	-	110,946	-	110,946	18,255
Total Other Expenditures	295,265	110,946	17,575	423,786	398,031
TOTAL EXPENSES	2,909,381	110,946	17,575	3,037,902	2,890,355
EXCESS REVENUES (EXPENSES)	440,379	(60,082)	(9,596)	370,701	400,392
FUND BALANCES, BEGINNING OF YEAR	4,414,611	2,130,820	402,189	6,947,620	6,547,228
TRANSFERS BETWEEN FUNDS					
Capitalized Fixed Asset Transfers	214,576	(157,518)	(57,058)	-	-
Contributions from Operating	(858,000)	858,000	-	-	-
Contributions to Water Conservation Fund	(20,000)	-	20,000	-	-
TOTAL TRANSFERS BETWEEN FUNDS	(663,424)	700,482	(37,058)	-	-
FUND BALANCES, END OF YEAR	\$ 4,191,566	\$ 2,771,220	\$ 355,535	\$ 7,318,321	\$ 6,947,620

See independent auditor's report.