



ANTHEM COMMUNITY COUNCIL, INC.

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2019 AND 2018
AND FOR THE YEARS THEN ENDED



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ANTHEM COMMUNITY COUNCIL, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Anthem Community Council, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Anthem Community Council, Inc. (an Arizona Corporation), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Anthem Community Council, 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.

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 18, 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.

Other Matter

The financial statements of as of December 31, 2018, were audited by other auditors whose report, dated February 12, 2020, expressed an unmodified opinion on those statements.

Butler Hansen, PLLC

Gilbert, Arizona
July 29, 2020

ANTHEM COMMUNITY COUNCIL, INC.
BALANCE SHEET
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>ENHANCEMENT FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
<u>ASSETS</u>					
Cash	\$ 2,274,892	\$ 1,968,403	\$ 230,248	\$ 4,473,543	\$ 5,342,994
Certificate of Deposit	-	262,465	-	262,465	-
Investments	3,329,582	12,996,180	1,245,335	17,571,097	15,430,960
Accounts Receivable, Net of Allowance of \$379,546 and \$385,236, 2019 and 2018, respectively	100,911	-	-	100,911	109,321
Related Party Receivables	33,559	-	-	33,559	733,984
Interest Receivable	-	11,601	-	11,601	10,989
Prepaid Expenses	131,582	-	-	131,582	114,180
Property and Equipment, Net	17,371,903	-	-	17,371,903	16,150,412
Interfund Balance	(398,565)	1,613,937	(1,215,372)	-	-
TOTAL ASSETS	<u>\$ 22,843,864</u>	<u>\$ 16,852,586</u>	<u>\$ 260,211</u>	<u>\$ 39,956,661</u>	<u>\$ 37,892,840</u>
<u>LIABILITIES</u>					
Accounts Payable	\$ 365,684	\$ 238,427	\$ 188,656	\$ 792,767	\$ 372,704
Accrued Expense	42,593	-	-	42,593	82,627
Accrued Payroll	73,192	-	-	73,192	135,670
Accrued PTO	140,706	-	-	140,706	171,423
Income Tax Payable	9,370	-	-	9,370	1,834
Prepaid Assessments	1,086,685	-	-	1,086,685	1,020,528
Prior Owner Credit Balances	100,000	-	-	100,000	-
Deferred Revenue	31,164	-	-	31,164	33,212
Related Party Payables	773,400	-	-	773,400	528,147
Other Liabilities	10,217	-	-	10,217	8,927
TOTAL LIABILITIES	<u>2,633,011</u>	<u>238,427</u>	<u>188,656</u>	<u>3,060,094</u>	<u>2,355,072</u>
<u>FUND BALANCES</u>					
Operating Fund	20,210,853	-	-	20,210,853	18,802,133
Reserve Fund	-	16,614,159	-	16,614,159	15,716,873
Enhancement Fund	-	-	71,555	71,555	1,018,762
TOTAL FUND BALANCES	<u>20,210,853</u>	<u>16,614,159</u>	<u>71,555</u>	<u>36,896,567</u>	<u>35,537,768</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 22,843,864</u>	<u>\$ 16,852,586</u>	<u>\$ 260,211</u>	<u>\$ 39,956,661</u>	<u>\$ 37,892,840</u>

See accompanying notes to the financial statements.

ANTHEM COMMUNITY COUNCIL, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	OPERATING FUND	RESERVE FUND	ENHANCEMENT FUND	TOTAL 2019	TOTAL 2018
REVENUES					
Homeowner Assessments	\$ 8,410,711	\$ -	\$ -	\$ 8,410,711	\$ 8,368,134
Commercial Assessments	646,164	-	-	646,164	646,164
Classes, Programs and Event Revenues	1,184,717	-	-	1,184,717	1,143,146
Lease Revenue	156,139	-	-	156,139	147,664
Collection Costs	270,356	-	-	270,356	215,973
Property Resales	382,868	-	-	382,868	372,915
Enhancement Fees	-	-	964,453	964,453	921,623
Miscellaneous Income	22,979	-	-	22,979	95,655
Investment and Interest Income	151,494	443,560	36,818	631,872	265,251
TOTAL REVENUES	<u>11,225,428</u>	<u>443,560</u>	<u>1,001,271</u>	<u>12,670,259</u>	<u>12,176,525</u>
EXPENSES					
Administrative	3,956,997	-	-	3,956,997	4,575,958
Program Costs	410,528	-	-	410,528	401,294
Utilities	961,751	-	-	961,751	1,054,723
Repairs and Maintenance	1,704,124	-	-	1,704,124	805,113
Depreciation	850,480	-	-	850,480	743,855
Contract Services	1,756,601	-	-	1,756,601	1,751,225
Taxes	28,202	-	-	28,202	(162,413)
Major Repairs and Replacements	-	1,640,597	-	1,640,597	987,887
Enhancement Expense	-	-	2,180	2,180	4,758
TOTAL EXPENSES	<u>9,668,683</u>	<u>1,640,597</u>	<u>2,180</u>	<u>11,311,460</u>	<u>10,162,400</u>
EXCESS REVENUES (EXPENSES)	1,556,745	(1,197,037)	999,091	1,358,799	2,014,125
FUND BALANCES					
BEGINNING OF YEAR	18,802,133	15,716,873	1,018,762	35,537,768	33,523,643
TRANSFERS BETWEEN FUNDS					
Transfers to Reserves	(2,220,000)	2,220,000	-	-	-
Capital Fixed Asset Transfers	2,071,975	(125,677)	(1,946,298)	-	-
TOTAL TRANSFERS BETWEEN FUNDS	<u>(148,025)</u>	<u>2,094,323</u>	<u>(1,946,298)</u>	<u>-</u>	<u>-</u>
FUND BALANCES END OF YEAR	<u>\$ 20,210,853</u>	<u>\$ 16,614,159</u>	<u>\$ 71,555</u>	<u>\$ 36,896,567</u>	<u>\$ 35,537,768</u>

See accompanying notes to the financial statements.

ANTHEM COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>ENHANCEMENT FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Excess Revenues (Expenses)	\$ 1,556,745	\$ (1,197,037)	\$ 999,091	\$ 1,358,799	\$ 2,014,125
Adjustments to Reconcile Excess Revenues (Expenses) to Cash Provided (Used) by					
Operating Activities					
Depreciation Expense	850,480	-	-	850,480	743,855
Bad Debt Expense	82,402	-	-	82,402	(28,004)
Relaized (Gain) Loss on Investments	-	18,220	573	18,793	133,751
(Increase)/Decrease In					
Accounts Receivable	(71,398)	-	-	(71,398)	(47,504)
Related Party Receivables	701,667	-	-	701,667	-
Interest Receivable	-	(612)	-	(612)	66,630
Prepaid Expenses	(16,770)	-	-	(16,770)	(3,515)
Increase/(Decrease) In					
Accounts Payable	(7,020)	238,427	188,656	420,063	(93,099)
Accrued Expense	(40,822)	-	-	(40,822)	(94,535)
Accrued Payroll	(62,478)	-	-	(62,478)	-
Accrued PTO	(30,717)	-	-	(30,717)	-
Income Tax Payable	7,536	-	-	7,536	-
Prepaid Assessments	62,482	-	-	62,482	(27,779)
Prior Owner Credit Balances	100,000	-	-	100,000	-
Deferred Revenue	(2,048)	-	-	(2,048)	(24,158)
Related Party Payables	245,253	-	-	245,253	(155,824)
Other Liabilities	1,289	-	-	1,289	-
Net Cash Provided (Used) by Operating Activities	<u>3,376,601</u>	<u>(941,002)</u>	<u>1,188,320</u>	<u>3,623,919</u>	<u>2,483,943</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Purchases of Investments	(2,244,233)	(11,916,189)	(1,245,908)	(15,406,330)	(2,094,081)
Maturities of Investments	1,096,960	10,934,133	1,216,307	13,247,400	1,098,640
Reclassification of Certificate of Deposit	-	(255,635)	-	(255,635)	-
Reinvested Interest	-	(6,830)	-	(6,830)	-
Purchase of Fixed Assets	(2,071,975)	-	-	(2,071,975)	(1,807,414)
Net Cash Provided (Used) by Investing Activities	<u>(3,219,248)</u>	<u>(1,244,521)</u>	<u>(29,601)</u>	<u>(4,493,370)</u>	<u>(2,802,855)</u>

(CONTINUED)

See accompanying notes to the financial statements.

ANTHEM COMMUNITY COUNCIL, INC.
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AT DECEMBER 31, 2018)

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>ENHANCEMENT FUND</u>	<u>TOTAL 2019</u>	<u>TOTAL 2018</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Capital Fixed Asset Transfers	2,071,975	(125,677)	(1,946,298)	-	-
Transfers to Reserve Fund	(2,220,000)	2,220,000	-	-	-
Change in Interfund Balances	(73,512)	(719,677)	793,189	-	-
Net Cash Provided (Used) by Financing Activities	<u>(221,537)</u>	<u>1,374,646</u>	<u>(1,153,109)</u>	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(64,184)	(810,877)	5,610	(869,451)	(318,912)
CASH BALANCE, BEGINNING OF YEAR	<u>2,339,076</u>	<u>2,779,280</u>	<u>224,638</u>	<u>5,342,994</u>	<u>5,661,906</u>
CASH BALANCE, END OF YEAR	<u>\$ 2,274,892</u>	<u>\$ 1,968,403</u>	<u>\$ 230,248</u>	<u>\$ 4,473,543</u>	<u>\$ 5,342,994</u>
 <u>SUPPLEMENTARY INFORMATION</u>					
Income Taxes Paid	\$ 20,733				\$ 18,280
Interest Paid	\$ -				\$ -

See accompanying notes to the financial statements.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 1 - NATURE OF THE ORGANIZATION

Anthem Community Council, Inc. (the "Council"), a nonprofit corporation, was incorporated on January 12, 1999, under the general non-profit laws of the State of Arizona. The Council was established to provide management, maintenance and preservation of the common areas and other property owned by the Council or property placed under its jurisdiction. The Council is located in Anthem, Arizona. At December 31, 2019, the Council consisted of 10,252 residential units and various commercial properties that include Bela Rosa Apartments and two assisted living homes. The Council 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 Council operates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Council'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 Council 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 Council.

Reserve Fund

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

Enhancement Fund

The Enhancement Fund is used to account for financial resources collected at the close of escrow from Community Enhancement Fees. The funds shall be used for purposes the Board deems beneficial for the general good and welfare of the Anthem community.

Accounts Receivable

The annual budget and member assessments are approved by the Board of Directors. Council members are subject to quarterly assessments to provide funds for the Council's operating expenses, future capital acquisitions, and major repairs and future replacements. Assessments receivable at December 31, 2019, represent fees due from homeowners. The Council accounts for receivables on the cost basis. Receivables are considered delinquent after 30 days, at which time the Council pursues collection. Receivables are reviewed regularly and the Council 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 Council for use in the succeeding year.

Prepaid Assessments and Revenue Recognition

Payments received by the Council prior to the assessment due date are properly not recognized as revenue until the corresponding assessment is made by the Council 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.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Cash and Cash Equivalents

For statement of cash flows purposes, the Council 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. Certificates of deposit and financial instruments, with original maturities, at date of purchase, of more than three months, are classified as certificates of deposit.

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.

Property and Equipment

In accordance with American Institute of Certified Public Accountants guidelines, the Council 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 the members on the basis of usage.

The Council capitalizes all personal property it acquires with a cost of \$10,000 or more. Purchased personal property and equipment is recorded at cost and depreciated using the straight-line depreciation method over the useful lives of the property.

Certificates of Deposit

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

Common Property

Certain land areas were contributed by the developer, upon completion of the project, at no cost to the Council, which are not reflected in the financial statements. The contributed areas consist of parks, landscape and landscape rights-of-way, which can never be sold or subdivided. The Council has not placed a value on these assets.

Date of Management's Review

Subsequent events have been evaluated through July 29, 2020, which is the date the financial statements were available to be issued.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Council's investments include corporate bonds, municipal bonds, securities, and unrealized gains and losses.

The investments are classified as available for sale. The instruments are initially recorded at cost and subsequently presented on the financial statements at their fair value. In accordance with generally accepted accounting principles, any realized gain or loss in the fair market value of these types of securities, subsequent to their purchase, is recognized in the period in which they were realized. Unrealized gains or losses in the fair market value of these securities, subsequent to their purchase, are recognized as income.

Fair Value Measurements

FASB ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. FASB ASC 820 establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions, prioritized as follows:

- Level 1 Inputs – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – observable market data, generally other than quoted prices.
- Level 3 Inputs – significant unobservable data.

Generally accepted accounting principles require that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by fund balance class. Prior period summarized financial information has been presented for comparison with current period amounts. Accordingly, such information should be read in conjunction with the Council's financial statements for the year ended December 31, 2018 from which the summarized information was derived. While the summarized information in the current year financial statements from 2018 is not in conformance with GAAP, the December 31, 2018 financial statements were prepared in conformance with GAAP.

Sales Tax

The Council is located in an area where governmental units impose a sales tax on certain sales. The Council collects those sales taxes from its customers and remits the entire amount to the various governmental units.

Advertising Costs

The Council charges to expense the costs of advertising as incurred. Advertising expense for the year ended December 31, 2019 and 2018 was \$34,784 and \$18,711, respectively.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 3 - 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). 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 Council 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 Council 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 Council 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 4 - ACCOUNTS RECEIVABLE

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

	2019	2018
Assessments Receivable	\$ 167,528	\$ 189,005
Other Charges	253,298	249,957
Community Programs	39,121	22,199
Cell Tower Receivable	2,248	2,248
Other Receivables	18,262	31,148
Total Gross Receivables	480,457	494,557
Less: Reserve for Bad Debt	(379,546)	(385,236)
Total Net Receivables	\$ 100,911	\$ 109,321

Total bad debt expense for the years ended December 31, 2019 and 2018, totaled \$82,402 and (\$28,004), respectively. Accounts receivable past due greater than 90 days at December 31, 2019 and 2018, totaled \$366,925 and \$388,015, respectively.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 5 - ASSESSMENTS

Council property owners are subject to annual assessments, billed on a periodic basis, to provide funds for the Council's operating expenses and major repairs and replacements. Assessment revenue allocated to the operating and reserve funds is recognized as the related performance obligation is satisfied for transaction amounts expected to be collected. The Council's performance obligation related to 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 homeowners' assessments. The Council's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are sixty days or more delinquent. Any excess assessments at year end are retained by the Council for use in the succeeding year. There is no maximum annual assessment defined in the Council's governing documents.

Residential Assessments

The assessments for the residential parcels are to provide funds for the Council's operating expenses and future major repairs and replacements. The actual billed assessment rates, on a quarterly basis, in 2019 and 2018 were \$205.50. Residents within The Village at Anthem Condominium Council of Co-Owners, Inc. were billed assessments, on a quarterly basis, in 2019 and 2018 of \$139.50 per unit.

Benefitted Assessments (Paseo)

Homeowners within Paseo were billed quarterly benefitted assessments of \$118.50 during 2019 and 2018.

Commercial Assessments

Non-Residential owners are subject to annual assessments based on acreage. During 2019 and 2018, Non-Residential owners were billed \$616.50 per acre. In addition, Bela Rosa Apartments and the two assisted living homes are subject to assessments based on 67% of the annual assessment rate and are billed based on the number of apartment units or beds. During 2019 and 2018, Bela Rosa Apartments and assisted living homes were billed quarterly at \$137.07 per unit or bed.

At December 31, 2019, the Council had delinquent assessments of \$167,528. It is the opinion of the Board of Directors that the Council will ultimately prevail against the majority of the homeowners with delinquent assessments.

The Council 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 Council's control. The balances of assessments receivable as of the beginning and end of the year are \$189,005 and \$167,528, respectively.

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Council's primary source of revenue is member assessments, which are earned on assessable lots or parcels located within a small geographic area. Member assessments, enhancement fees (Note 19) and related receivables are subject to significant 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 Council monitors the collectability of these receivables and pursues collection as needed. Should the Council's collection efforts be unsuccessful, the Council 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.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 6 - CONCENTRATION OF CREDIT RISK (CONTINUED)

The Council places cash deposits and investments with financial institutions that have Federal Deposit Insurance Corporation (FDIC) coverage. The Council 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.

NOTE 7 - CORPORATE INCOME TAX

The Council 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. The Council had a federal and state tax liability of \$22,552 and \$5,311, respectively, for the year ended December 31, 2019. Federal and state income taxes disbursed in the current year for the prior year were \$1,897 and \$36, respectively.

NOTE 8 - UNCERTAIN TAX POSITIONS

The Council accounts for uncertain tax positions, if any, in accordance with FASB Accounting Standards Codification Section 740. In accordance with these professional standards, the Council 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 positions for the year ending December 31, 2019.

The Council 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 Council’s financial condition, net income or cash flows. Accordingly, the Council has not recorded any reserves, or related accruals for interest and penalties for uncertain tax provisions at December 31, 2019.

The Council is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. The Council 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 9 - COMPENSATED BALANCES

Full-time employees accrue Paid Time Off/Paid Sick Time (PTO/PST) beginning on their date of hire. PTO/PST cannot be used until the 90th calendar day after their hire. PTO/PST is accrued per pay period, based on the length of service of the employee. A maximum of 250 hours of PTO/PST can be rolled over year to year. Any unused, accrued PTO/PST is paid out to employees at the time of termination. For the years ended December 31, 2019 and 2018, the Council had recorded PTO/PST of \$140,706 and \$171,423, respectively.

Part-time employees are provided earned paid sick time (PST) by the Council. Employees accrue one hour of PST for every 30 hours worked with a maximum of 40 hours of earned PST per year.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Council enters into various contracts for services. Generally the contracts are for terms of one to five years and can be canceled by either party with 30 to 90 day notifications.

NOTE 11 - RETIREMENT PLANS

The Council's employees at least 21 years of age have the opportunity to participate in a 401(k) retirement plan after three months of continuous employment. Participating employees may elect to contribute, on a tax deferred basis, a portion of their compensation, with the Council contributing a 100% match of the employee's first 4% contribution. The Council made matching contributions to the plan of approximately \$64,108 and \$63,839 for the years ended December 31, 2019 and 2018, respectively.

NOTE 12 - 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 Council. Other financial impacts such as bad debt losses, contract modifications, inadequate reserve funding, or other unforeseen circumstances could occur.

NOTE 13 - PROPERTY AND EQUIPMENT

Depreciable property and equipment in use as of December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 210,848	\$ 210,848
Land Improvements	10,249,059	10,249,059
Buildings	22,606,471	22,597,877
Equipment	963,236	863,427
Furniture and Fixtures	126,072	126,072
Dog and Skate Park	1,932,960	-
Pickleball Courts	817,822	-
Vehicles	310,485	242,222
Construction in Progress	<u>4,153</u>	<u>859,627</u>
Total Property and Equipment, Gross	37,221,106	35,149,132
Less: Accumulated Depreciation	<u>(19,849,203)</u>	<u>(18,998,720)</u>
Total Property and Equipment, Net	<u>\$ 17,371,903</u>	<u>\$ 16,150,412</u>

Depreciation expense for the years ended December 31, 2019 and 2018, was \$850,480 and \$743,855, respectively.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
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NOTE 14 - OPERATING LEASE OBLIGATIONS

The Council leases various office equipment under operating lease agreements that expire during 2021. The minimum future lease payments under the operating leases at December 31, 2019 are as follows:

Years Ended <u>December 31,</u>	
2020	\$ 21,105
2021	<u>21,105</u>
Total	<u>\$ 42,210</u>

The Council recorded lease expense under operating leases of \$22,963 and \$21,295 for the years ended December 31, 2019 and 2018, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

The Council assumes the collection responsibility of assessments for Anthem Country Club Community Association, Inc. (Country Club), Anthem Parkside Community Association, Inc. (Parkside) and The Village at Anthem Condominium Council of Co-Owners, Inc (the Village). As a result, the Council acted as an agent between the Associations and homeowners paying assessments. The funds collected by the Council are subsequently transferred to the Associations each month. In addition, there are expenses paid by the Council on behalf of the Associations during the year that the Associations are obligated to reimburse to the Council. The Associations also pay expenses on behalf of the Council that are reimbursed throughout the year by the Council.

The Council is also responsible for servicing all resales within the Anthem community. Per the agreement between the Council and Associations dated January 13, 2015, the Council is to remit \$75 from each closing to the Associations. For the years ended December 31, 2019 and 2018, the Council remitted transfer fees to the Associations in the amount of \$80,278 and \$80,205, respectively.

Country Club

At December 31, 2019, the Council recorded a receivable of \$246 and a payable of \$466,704 from related party activity with the Country Club. At December 31, 2018, the Council was owed \$91,405 from the Country Club.

Parkside

At December 31, 2019, the Council recorded a receivable of \$33,313 and a payable of \$222,819 from related party activity with Parkside. At December 31, 2018, the Council was owed \$58,075 from Parkside.

Village

At December 31, 2019, the Council recorded a payable of \$83,877 from related party activity with the Village. At December 31, 2018, the Council was owed \$56,357 from the Village.

NOTE 16 - RESERVE FUND

The Council accumulates funds for future major repairs and replacements; at December 31, 2019, these funds were \$16,614,159 and are held in separate accounts and are not available for operating purposes.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 16 - RESERVE FUND (CONTINUED)

In 2018, the Council's Board of Directors engaged a firm to conduct studies to estimate the remaining useful lives and replacement costs of the common property components. The reserve studies were completed on

October 24, 2018. The Council is funding future major repairs and replacements based on the studies' estimates of current replacement costs. Funding considerations include amounts previously designated for future major repairs and replacements. Actual expenditures, when incurred, may vary from the estimated amounts and the variations may be material. Accordingly, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, however, the Council 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.

NOTE 17 - CERTIFICATE OF DEPOSIT

At December 31, 2019, the Council had \$262,465 in a certificate of deposit. The certificate of deposit outstanding at December 31, 2019, matures in 2021, and earns interest at a rate of 1.88%.

NOTE 18 - INVESTMENTS

Investments consisted of the following at December 31, 2019:

	Operating Fund	Reserve Fund	Enhancement Fund	Total
Bonds	\$ -	\$ 9,955,386	\$ 1,245,335	\$ 11,200,721
Securities	3,329,582	3,040,794	-	6,370,376
Total Investments	\$ 3,329,582	\$ 12,996,180	\$ 1,245,335	\$ 17,571,097

Assets measured at fair value on a recurring basis are comprised of available for sale securities – corporate bonds, municipal bonds and securities, totaling \$17,571,097 at December 31, 2019. The fair market value is determined by reference to quoted market prices and other relevant information generated by market transactions, as follows at December 31, 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Available for Sale Securities –			
Bonds	\$ 11,200,721	\$ -	\$ -
Securities	6,370,376	-	-
Total	\$ 17,571,097	\$ -	\$ -

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2018)

NOTE 19 - ENHANCEMENT FEES

Enhancement fees are collected from the sale of residential property within the Anthem community based on a percentage of the gross sales price of the property. The percentage charged for residential property resales is $\frac{1}{4}$ of 1%. During the years ended December 31, 2019 and 2018, the Council recorded Enhancement fee revenue of \$964,453 and \$921,623, respectively.

NOTE 20 - LEASE INCOME

The Council has entered into four cell tower lease agreements with unrelated third parties. The lease agreements range from 15 to 20-year terms that extend through 2033. The cell tower leases are summarized below.

AT&T

Under the terms of the lease agreement with AT&T, the tenant agrees to pay the Council a monthly lease payment, increasing at an annual rate of 15% over the prior year's rate. This lease agreement has provisions for up to four consecutive five-year extensions, provided that the tenant exercises the option to extend and is current on lease obligations to the Council.

Sprint

Under the terms of the lease agreement with Sprint, the tenant agrees to pay the Council a monthly lease payment, increasing at an annual rate of 10% over the prior year's rate. This lease agreement has provisions for up to four consecutive five-year extensions, provided that the tenant exercises the option to extend and is current on lease obligations to the Council.

T-Mobile

Under the terms of the lease agreement with T-Mobile, the tenant agrees to pay the Council a monthly lease payment, increasing at an annual rate of 15% over the prior year's rate. This lease agreement has provisions for up to four consecutive five-year extensions, provided that the tenant exercises the option to extend and is current on lease obligations to the Council.

Verizon

Under the terms of the lease agreement with Verizon, the tenant agrees to pay the Council a monthly lease payment, increasing at \$150 per month over the prior year's rate. This lease agreement has provisions for up to four consecutive five-year extensions, provided that the tenant exercises the option to extend and is current on lease obligations to the Council.

In January 2013, the Council entered into an 18-year lease agreement with the Maricopa County Sheriff's office (MCSO) to rent 2,900 square feet of office space at 3701 West Anthem Way, Anthem, AZ. The lease requires monthly payments based on square footage. During 2019, the lease required monthly payments of \$5,015 from January to June and \$5,075 from July to December. The lease expires on June 30, 2031 and carries an option to renew the lease for an additional 15-year term.

ANTHEM COMMUNITY COUNCIL, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 20 - LEASE INCOME (CONTINUED)

Approximate future minimum lease payments to be received under leases as of December 31, 2019 are:

Years Ending December 31,	
2020	\$ 154,692
2021	167,309
2022	181,349
2023	197,017
2024	214,908
Thereafter	<u>1,704,820</u>
Total Remaining	<u>\$ 2,620,095</u>

For the years ending December 31, 2019 and 2018, the Council recorded lease income of \$156,139 and \$147,664, respectively.



**ANTHEM COMMUNITY COUNCIL,
INC.**

SUPPLEMENTARY
INFORMATION



ANTHEM COMMUNITY COUNCIL, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019

The Council's Board of Directors engaged a firm to conduct a study to estimate the replacement costs of certain common property components. The study was completed on October 24, 2018. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on the study and presents significant information about the components of common property.

<u>Component</u>	<u>Current Remaining Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Reserve Fund Balance December 31, 2019</u>
General	1 to 19	\$ 992,585	\$ -
Civic Building	0 to 48	1,759,428	-
Community Center	0 to 25	3,976,572	-
Liberty Bell Park	0 to 18	217,991	-
Community Park	0 to 20	2,359,393	-
Opportunity Way Park	1 to 28	665,671	-
Facilities Maintenance	0 to 12	641,383	-
Country Club HOA	0 to 13	1,729,007	-
Parkside HOA	1 to 15	1,192,616	-
Unallocated		-	16,614,159
Totals		<u>\$ 13,534,645</u>	<u>\$ 16,614,159</u>

See independent auditor's report.