

# DEEP CANYON TENNIS CLUB OWNERS ASSOCIATION

FINANCIAL STATEMENTS

JUNE 30, 2021



**SCOTTCORPORATION**

A PROFESSIONAL ACCOUNTANCY CORPORATION

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Deep Canyon Tennis Club Owners Association

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Deep Canyon Tennis Club Owners Association, which comprise the balance sheet as of June 30, 2021, 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 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.

### *Auditors' 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 of 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 Deep Canyon Tennis Club Owners Association as of June 30, 2021, 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.

*(continued)*

(continued)

*Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 12 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, which 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.

*Scott Corporation*

Scott Corporation, APAC  
Rancho Mirage, CA  
October 27, 2021

**Deep Canyon Tennis Club Owners Association**  
**Balance Sheet**  
**June 30, 2021**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 303,783	\$ 495,157	\$ 798,940
Investments	-	600,000	600,000
Assessments receivable (net of allowance for doubtful accounts of \$787)	12,606	-	12,606
Special assessments receivable	26,820	-	26,820
Accrued interest	-	818	818
Prepaid expenses	122,320	-	122,320
Property and equipment, net	1,684,643	-	1,684,643
Due from (to) other fund	883	(883)	-
<b>TOTAL ASSETS</b>	<u><u>\$ 2,151,055</u></u>	<u><u>\$ 1,095,092</u></u>	<u><u>\$ 3,246,147</u></u>
 <b>LIABILITIES</b>			
Accounts payable	\$ 41,555	\$ 1,784	\$ 43,339
Committee funds	20,574	-	20,574
Deferred revenues	32,297	-	32,297
Prepaid assessments	50,375	-	50,375
<b>TOTAL LIABILITIES</b>	<u>144,801</u>	<u>1,784</u>	<u>146,585</u>
<b>FUND BALANCES</b>	2,006,254	1,093,308	3,099,562
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 2,151,055</u></u>	<u><u>\$ 1,095,092</u></u>	<u><u>\$ 3,246,147</u></u>

**The accompanying notes are an integral part of the financial statements.**

**Deep Canyon Tennis Club Owners Association**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**Year Ended June 30, 2021**

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Member assessments	\$ 1,929,765	\$ 485,235	\$ 2,415,000
Special assessment interest	1,738	-	1,738
Tennis fees	18,975	-	18,975
Owner rental fees	8,710	-	8,710
Interest income	1	7,383	7,384
Other income	6,945	-	6,945
<b>TOTAL REVENUES</b>	<u>1,966,134</u>	<u>492,618</u>	<u>2,458,752</u>
<b>EXPENSES</b>			
<b>Administration</b>			
Management	439,355	-	439,355
Professional fees	12,806	-	12,806
Insurance	162,841	-	162,841
Office expense	9,743	-	9,743
Postage and printing	4,519	-	4,519
Depreciation	48,285	-	48,285
Income tax	808	-	808
Bad debts	3,079	-	3,079
Other administration	4,248	-	4,248
<b>Total Administration</b>	<u>685,684</u>	<u>-</u>	<u>685,684</u>
<b>Landscaping</b>			
Landscape contract	466,340	-	466,340
Landscape extras	190,038	-	190,038
<b>Total Landscaping</b>	<u>656,378</u>	<u>-</u>	<u>656,378</u>
<b>Pools and Spas</b>			
Service contract	30,656	-	30,656
Pool repairs	20,987	-	20,987
Pool gas	41,698	-	41,698
Pool electricity	42,668	-	42,668
Pool permits	6,496	-	6,496
<b>Total Pools and Spas</b>	<u>142,505</u>	<u>-</u>	<u>142,505</u>
<b>Security</b>			
Security contract	154,344	-	154,344
Supplies and repairs	4,038	-	4,038
<b>Total Security</b>	<u>158,382</u>	<u>-</u>	<u>158,382</u>

Continued

The accompanying notes are an integral part of the financial statements.

**Deep Canyon Tennis Club Owners Association**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**Year Ended June 30, 2021**

Continued

	Operating Fund	Replacement Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>EXPENSES</b>			
<b>Maintenance</b>			
Building maintenance	\$ 29,564	\$ -	\$ 29,564
Janitorial supplies	1,981	-	1,981
Vehicle maintenance	3,233	-	3,233
Pest control	13,984	-	13,984
Miscellaneous	1,148	-	1,148
Replacement fund expenses	-	245,158	245,158
<b>Total Maintenance</b>	<u>49,910</u>	<u>245,158</u>	<u>295,068</u>
<b>Tennis and Pickleball</b>			
Professional fees	67,480	-	67,480
Telephone	1,590	-	1,590
Miscellaneous	3,234	-	3,234
<b>Total Tennis and Pickleball</b>	<u>72,304</u>	<u>-</u>	<u>72,304</u>
<b>Utilities</b>			
Electricity	11,842	-	11,842
Water	37,328	-	37,328
Refuse collection	34,347	-	34,347
Telephone	4,892	-	4,892
Cable	171,959	-	171,959
<b>Total Utilities</b>	<u>260,368</u>	<u>-</u>	<u>260,368</u>
<b>TOTAL EXPENSES</b>	<u>2,025,531</u>	<u>245,158</u>	<u>2,270,689</u>
Excess revenues or (expenses)	(59,397)	247,460	188,063
Beginning fund balances	2,065,651	845,848	2,911,499
<b>ENDING FUND BALANCES</b>	<u><u>\$ 2,006,254</u></u>	<u><u>\$ 1,093,308</u></u>	<u><u>\$ 3,099,562</u></u>

The accompanying notes are an integral part of the financial statements.

**Deep Canyon Tennis Club Owners Association**  
**Statement of Cash Flows**  
**Year Ended June 30, 2021**

	Operating Fund	Replacement Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess revenues or (expenses)	\$ (59,397)	\$ 247,460	\$ 188,063
Adjustments to reconcile excess revenues or (expenses) to cash flows provided (used) by operating activities:			
Depreciation	48,285	-	48,285
Bad debts	3,079	-	3,079
(Increase) decrease in assets:			
Assessments receivable	(3,178)	-	(3,178)
Special assessments receivable	4,516	-	4,516
Accrued interest	-	458	458
Prepaid expenses	(75,831)	-	(75,831)
Increase (decrease) in liabilities:			
Accounts payable	(9,520)	1,784	(7,736)
Committee funds	180	-	180
Deferred revenues	(1,990)	-	(1,990)
Income taxes payable	(6,094)	-	(6,094)
Prepaid assessments	19,644	-	19,644
<b>Total adjustments</b>	(20,909)	2,242	(18,667)
<b>Net cash flows provided (used) by operating activities</b>	(80,306)	249,702	169,396
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Interfund borrowings	63,546	(63,546)	-
<b>Net cash flows provided (used) by financing activities</b>	63,546	(63,546)	-
<b>Net increase (decrease) in cash</b>	(16,760)	186,156	169,396
<b>Cash at beginning of year</b>	320,543	309,001	629,544
<b>Cash at end of year</b>	\$ 303,783	\$ 495,157	\$ 798,940
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Income taxes	\$ 1,400	\$ -	\$ 1,400

**The accompanying notes are an integral part of the financial statements.**

**Deep Canyon Tennis Club Owners Association**  
**Notes to Financial Statements**

**Note 1.      Organization**

Deep Canyon Tennis Club Owners Association (“Association”) was incorporated on April 9, 1973 as a California Nonprofit Mutual Benefit Corporation under the law of the state of California. The Association, located in Palm Desert, California, is a condominium development whose primary purpose is to provide for the preservation, maintenance, and architectural control of the area within the development, which includes 350 residential units.

**Note 2.      Date of Management’s Review**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 27, 2021, the date the financial statements were available to be issued.

**Note 3.      Summary of Significant Accounting Policies**

Fund Accounting. The Association uses fund accounting on an accrual basis, which requires that funds such as operating funds and funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and Property Manager. Disbursements from the replacement fund generally may be made only for designated purposes.

Property and Equipment. Personal property, equipment and real property acquired by the Association are recorded at cost and depreciated using the straight-line method or double-declining balance method of depreciation over their estimated useful lives of five to thirty-nine years.

Common Area Property. Real property and common areas acquired from the developer and related improvements to such property are not recognized as assets on the Association’s financial statements. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for the purpose of financial reporting.

Assessments. Assessments from members are the principal source of revenues for the Association. Assessments are recognized as revenue when due. Assessments received in advance of the due date are treated as deferred income in the liability section of the balance sheet. These amounts are recognized as revenue when the assessment becomes due.

Cash and Cash Equivalents. For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.



# Deep Canyon Tennis Club Owners Association

## Notes to Financial Statements

### Note 3. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments. The carrying amounts of cash and cash equivalents, assessments receivable, other current assets, accounts payable, prepaid assessments and accrued expenses approximate fair value because of the short maturity of those instruments.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Actual results could differ from those estimates.

### Note 4. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

The Board of Directors engaged an outside consultant that performed a reserve study in May 2021 to estimate the remaining useful lives and the replacement costs of the common property components. The table on page 12, included in the unaudited supplementary information on Future Major Repairs and Replacements, is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. The study indicates a fiscal 2022 funding recommendation of \$536,508. The Board included \$536,508 in the fiscal 2022 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. Except in certain emergency situation, increased regular assessments greater than 20% of the preceding year's regular assessments or special assessments greater than 5% of the annual budget must be approved by the members.

# Deep Canyon Tennis Club Owners Association

## Notes to Financial Statements

### Note 5. Assessments Receivable

Monthly assessments to owners were \$575 during the fiscal year ended June 30, 2021. Of that amount, approximately \$116 per month was designated to the Replacement Fund. The annual budget and owners' assessments are determined and approved by the Board of Directors.

The Association's policy is to retain legal counsel and place liens on the property of homeowners who are delinquent. At June 30, 2021, the Association had regular assessments receivable of \$13,393. The Association uses the allowance method to estimate uncollectible accounts. The allowance was \$787 at June 30, 2021.

### Note 6. Federal and State Income Taxes

The Association qualifies as an exempt membership corporation for both Federal and State income taxes. Accordingly, a tax liability is only incurred on income from nonexempt and nonmember income such as interest and rental income. The Association incurred income tax payments of \$1,400 in fiscal 2021.

As of June 30, 2021, the Association believes it is no longer subject to income tax examinations by taxing authorities for years prior to 2016.

### Note 7. Investments

The Association's investments include five certificates of deposit totaling \$600,000 which were held with several financial institutions. The certificates were carried at cost and mature September 2021, October 2021, December 2021, January 2022 and March 2022.

### Note 8. Lease, License, Easement and Maintenance Agreement

The Association has a (99 year) agreement with Owners of a property adjacent to the Association for their limited use of Association common area. The Owners are not members of the Association. For the limited use and related covenants, the Owners paid the Association \$25,000. The Association is recognizing the \$25,000 to income over the (99 year) lease term. Current year income was \$252 and deferred revenue was \$22,475 at June 30, 2021.

**Deep Canyon Tennis Club Owners Association**  
**Notes to Financial Statements**

**Note 9. Property and Equipment, Net**

At June 30, 2021, property and equipment consisted of the following:

	Amount
Pro shop	\$ 35,175
HOA office	10,820
Furniture and equipment	118,999
Electric carts/vehicles	43,301
Maintenance building	168,853
Clubhouse	1,632,684
	2,009,832
Less: accumulated depreciation	(325,189)
	\$ 1,684,643

Depreciation expense for the year ended June 30, 2021 was \$48,285.

**Note 10. Committee Funds**

During 2019, the Association adopted a resolution establishing a committee structure. The function of the committee is to review problems, initiate programs and events. The committees are responsible for themselves and provide reports to the Board and manager. The Association established separate bank accounts in care of each committee to separate committee activity from Association activity. Since the committees are responsible for their own activities that are separate from the Association, no profit and loss activity of the committee is included in the Association's financial statements. The only financial activity included in the Association financial statements is the individual committee bank accounts with a corresponding committee funds liability to reflect the obligation for the unexpended funds. The balance of the cash and corresponding committee funds liability was \$20,574 at June 30, 2021.

**Note 11. Special Assessment**

During fiscal 2019, the Association approved a special assessment of \$2,020 per member for a total of \$707,000. The special assessment was to help pay for the clubhouse bank loan that was paid off during fiscal 2020. The assessment was due and payable with three options: pay in full by June 30, 2019, twelve monthly payments of \$215 or 120 monthly payments of \$26 both starting July 15, 2019. The balance of special assessment receivable at June 30, 2021 was \$26,820, which includes \$9,822 of deferred finance fees.

# Deep Canyon Tennis Club Owners Association

## Notes to Financial Statements

**Note 12. Uninsured Cash Balances**

The Association maintains its cash and investments at several institutions. The accounts are secured by the Federal Deposit Insurance Corporation or Securities Investor Protection Corporation. Uninsured balances were approximately \$14,455 at June 30, 2021.

**Note 13. Coronavirus (COVID-19)**

On March 11, 2020, the World Health Organization pronounced the coronavirus (COVID-19) outbreak a pandemic. Citizens and the economies of the United States and other countries have been significantly impacted by the pandemic. While it is premature to accurately predict how the coronavirus will ultimately affect the Association's operations because the disease's severity and duration are uncertain, the fiscal 2022 financial results could be significantly impacted and the implications beyond fiscal 2022, while unclear, could also be adversely impacted.

**Deep Canyon Tennis Club Owners Association**  
**Supplementary Information on Future Major Repairs and Replacements**  
**June 30, 2021**  
**(Unaudited)**

The Board of Directors engaged an independent professional that conducted a study in May 2021 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was prepared with several assumed factors taken into account: 3.00% inflation rate; a 0.47% return on investment; taxes on interest earned are paid for through the operating fund; an estimated remaining life of each reserve component; and an estimated future replacement cost of each reserve component. The following table is based on the study and presents significant information about the components of the common property.

Components	Estimated Useful Life	Estimated Remaining Useful Life	Estimated Current Replacement Costs	2022 Recommended Funding	Components of Fund Balance at 06-30-21
Asphalt roadway	2 - 32	0 - 27	\$ 1,673,349	\$ 119,622	\$ -
Buildings, administration	5 - 40	2 - 13	64,700	4,422	-
Buildings, clubhouse	5 - 40	3 - 38	335,687	6,847	-
Buildings, gym	6 - 40	1 - 13	78,600	6,572	-
Buildings, gatehouse	5 - 40	4 - 23	47,632	2,528	-
Buildings, maintenance	10- 30	1 - 18	58,700	4,527	-
Courts	4 - 50	0 - 33	328,422	24,059	-
Irrigation	8 - 25	0 - 8	203,808	53,358	-
Landscape	1	-	9,000	3,862	-
Paint	2 - 30	0 - 28	717,846	61,929	-
Pools and spas	1 - 50	0 - 45	664,607	48,480	-
Residences, maintenance	1 - 35	0 - 25	168,050	41,216	-
Residences, roofs	14 - 42	2 - 31	2,204,500	151,650	-
Site	10 - 50	1 - 33	99,250	7,436	-
			<u>\$ 6,654,151</u>	<u>\$ 536,508</u>	<u>\$ 1,093,308</u>