

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2017 and 2016

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sun City Roseville Community Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Sun City Roseville Community Association, Inc., which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of revenue and expenses and changes in fund balances, changes in other accumulated comprehensive income and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 Sun City Roseville Community Association, Inc. as of June 30, 2017 and 2016, 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 the Required Supplementary Information on Future Major Repairs and Replacements on page 17 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.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
September 15, 2017

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
June 30, 2017 and 2016

	2017				2016			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
ASSETS								
Cash and cash equivalents	\$ 1,434,392	\$ 243,863	\$ -0-	\$ 1,678,255	\$ 1,249,504	\$ 393,286	\$ -0-	\$ 1,642,790
Cash and cash equivalents - capital improvements	107,202	-0-	-0-	107,202	562,463	-0-	-0-	562,463
Accounts receivable, net of allowance for doubtful accounts of \$5,395 in 2017 and \$6,426 in 2016	29,666	-0-	-0-	29,666	31,803	-0-	-0-	31,803
Interest and other receivables	3,040	35,164	-0-	38,204	5,324	35,535	-0-	40,859
Inventory	209,512	-0-	-0-	209,512	162,917	-0-	-0-	162,917
Prepaid expenses	249,921	1,266	-0-	251,187	228,324	232	-0-	228,556
Investments, amortized cost (Note 5)	580,658	7,031,289	-0-	7,611,947	726,196	6,899,864	-0-	7,626,060
Investments, fair value (Notes 4 and 5)	-0-	645,055	-0-	645,055	-0-	198,653	-0-	198,653
Investments - capital improvements, amortized cost (Note 5)	-0-	-0-	-0-	-0-	650,000	-0-	-0-	650,000
Other assets	-0-	-0-	76,233	76,233	-0-	-0-	76,233	76,233
Property and equipment, net (Note 6)	-0-	-0-	32,113,082	32,113,082	-0-	-0-	31,551,168	31,551,168
Total Assets	\$ 2,614,391	\$ 7,956,637	\$ 32,189,315	\$ 42,760,343	\$ 3,616,531	\$ 7,527,570	\$ 31,627,401	\$ 42,771,502
LIABILITIES AND FUND BALANCES								
Accounts payable	\$ 180,560	\$ -0-	\$ -0-	\$ 180,560	\$ 108,611	\$ -0-	\$ -0-	\$ 108,611
Accrued expenses	370,879	-0-	-0-	370,879	493,125	-0-	-0-	493,125
Deferred tax liability	-0-	4,226	-0-	4,226	-0-	-0-	-0-	-0-
Due to (from) other funds	130,863	(130,863)	-0-	-0-	(61,390)	61,390	-0-	-0-
Gift certificates and other deposits	201,482	-0-	-0-	201,482	216,512	-0-	-0-	216,512
Deferred revenue	1,025,556	-0-	-0-	1,025,556	956,184	-0-	-0-	956,184
Total Liabilities	1,909,340	(126,637)	-0-	1,782,703	1,713,042	61,390	-0-	1,774,432
Fund Balances								
Operating (Note 12)	705,051	-0-	-0-	705,051	1,903,489	-0-	-0-	1,903,489
Reserve	-0-	8,083,274	-0-	8,083,274	-0-	7,466,180	-0-	7,466,180
Property & equipment	-0-	-0-	32,189,315	32,189,315	-0-	-0-	31,627,401	31,627,401
Total Fund Balances	705,051	8,083,274	32,189,315	40,977,640	1,903,489	7,466,180	31,627,401	40,997,070
Total Liabilities and Fund Balances	\$ 2,614,391	\$ 7,956,637	\$ 32,189,315	\$ 42,760,343	\$ 3,616,531	\$ 7,527,570	\$ 31,627,401	\$ 42,771,502

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit B

STATEMENTS OF REVENUE AND EXPENSES AND CHANGES IN FUND BALANCES
For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Revenue:								
Members' assessments	\$ 4,788,162	\$ 884,484	\$ -0-	\$ 5,672,646	\$ 5,553,336	\$ 119,424	\$ -0-	\$ 5,672,760
Golf course operations, less cost of sales of \$117,275 in 2017 and \$116,499 in 2016	2,011,610	-0-	-0-	2,011,610	2,185,501	-0-	-0-	2,185,501
Food and beverage, less cost of sales of \$872,859 in 2017 and \$924,336 in 2016	1,804,970	-0-	-0-	1,804,970	1,872,972	-0-	-0-	1,872,972
Resident and newsletter activities	550,751	-0-	-0-	550,751	605,569	-0-	-0-	605,569
Fitness center, less cost of sales of \$50,084 in 2017 and \$47,448 in 2016	81,686	-0-	-0-	81,686	64,235	-0-	-0-	64,235
Investment revenue	9,366	178,254	-0-	187,620	8,943	207,990	-0-	216,933
Other revenue	213,068	-0-	-0-	213,068	157,701	-0-	-0-	157,701
Total Revenue	9,459,613	1,062,738	-0-	10,522,351	10,448,257	327,414	-0-	10,775,671
Expenses:								
Administration	1,846,722	-0-	-0-	1,846,722	1,825,153	-0-	-0-	1,825,153
Golf course operations	2,442,186	-0-	-0-	2,442,186	2,492,247	-0-	-0-	2,492,247
Food and beverage	1,851,210	-0-	-0-	1,851,210	1,751,810	-0-	-0-	1,751,810
Resident and newsletter activities	755,594	-0-	-0-	755,594	794,683	-0-	-0-	794,683
Fitness center	348,968	-0-	-0-	348,968	315,355	-0-	-0-	315,355
Facilities maintenance	1,571,548	-0-	-0-	1,571,548	1,511,976	-0-	-0-	1,511,976
Repair and maintenance (Note 8)	-0-	105,789	-0-	105,789	-0-	88,351	-0-	88,351
Landscaping	581,854	-0-	-0-	581,854	579,194	-0-	-0-	579,194
Provision for income taxes (Note 7)	13,171	14,813	-0-	27,984	13,801	22,159	-0-	35,960
Loss on disposal of fixed assets	-0-	-0-	40,905	40,905	-0-	-0-	4,369	4,369
Depreciation	-0-	-0-	1,012,598	1,012,598	-0-	-0-	994,061	994,061
Total Expenses	9,411,253	120,602	1,053,503	10,585,358	9,284,219	110,510	998,430	10,393,159
Revenue Over (Under) Expenses	48,360	942,136	(1,053,503)	(63,007)	1,164,038	216,904	(998,430)	382,512
Capital Expenditures Transfer (Note 8)	(1,171,798)	(443,619)	1,615,417	-0-	(235,531)	(860,962)	1,096,493	-0-
Fund Balance - Beginning of Year	1,903,489	7,466,180	31,627,401	40,997,070	974,982	8,109,089	31,529,338	40,613,409
Accumulated Other Comprehensive Income	-0-	43,577	-0-	43,577	-0-	1,149	-0-	1,149
Equity Transfer	(75,000)	75,000	-0-	-0-	-0-	-0-	-0-	-0-
Fund Balance - End of Year	\$ 705,051	\$ 8,083,274	\$ 32,189,315	\$ 40,977,640	\$ 1,903,489	\$ 7,466,180	\$ 31,627,401	\$ 40,997,070

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit C

STATEMENTS OF CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

For the Years Ended June 30, 2017 and 2016

Balance - June 30, 2015	<u>\$ -0-</u>
Comprehensive income:	
Change in unrealized gain on investments (Note 5)	<u>1,149</u>
Total comprehensive income	<u>1,149</u>
Balance - June 30, 2016	<u>1,149</u>
Comprehensive income:	
Change in unrealized gain on investments, net of \$4,226 income tax effect (Note 5)	<u>42,428</u>
Total comprehensive income	<u>42,428</u>
Balance - June 30, 2017	<u><u>\$ 43,577</u></u>

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017				2016			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Cash Flows from Operating Activities:								
Revenue Over (Under) Expenses	\$ 48,360	\$ 942,136	\$ (1,053,503)	\$ (63,007)	\$ 1,164,038	\$ 216,904	\$ (998,430)	\$ 382,512
Other Comprehensive Income - Unrealized Gain	-0-	43,577	-0-	43,577	-0-	1,149	-0-	1,149
Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:								
Depreciation	-0-	-0-	1,012,598	1,012,598	-0-	-0-	994,061	994,061
Recovery of bad debt	5,000	-0-	-0-	5,000	5,000	-0-	-0-	5,000
Equity transfer	(75,000)	75,000	-0-	-0-	-0-	-0-	-0-	-0-
Proceeds from property sale, conversion of (gain)/loss	(47,636)	-0-	40,905	(6,731)	(23,795)	-0-	4,369	(19,426)
(Increase) Decrease in assets:								
Accounts receivable	(2,863)	-0-	-0-	(2,863)	8,783	-0-	-0-	8,783
Interest and other receivables	2,284	371	-0-	2,655	(4,455)	7,797	-0-	3,342
Inventory	(46,595)	-0-	-0-	(46,595)	(5,412)	-0-	-0-	(5,412)
Prepaid expenses	(21,594)	(1,034)	-0-	(22,628)	85,744	(232)	-0-	85,512
Increase (Decrease) in liabilities:								
Accounts payable	71,949	-0-	-0-	71,949	(108,119)	-0-	-0-	(108,119)
Accrued expenses	(122,246)	-0-	-0-	(122,246)	(130,982)	(36,029)	-0-	(167,011)
Due to/from other funds	192,253	(192,253)	-0-	-0-	40,021	(40,021)	-0-	-0-
Gift certificates and other deposits	(15,030)	-0-	-0-	(15,030)	57,665	-0-	-0-	57,665
Deferred revenues	69,372	-0-	-0-	69,372	(62,691)	-0-	-0-	(62,691)
Deferred taxes	-0-	4,226	-0-	4,226	-0-	-0-	-0-	-0-
Net Cash Provided by Operating Activities	58,254	872,023	-0-	930,277	1,025,797	149,568	-0-	1,175,365
Cash Flows from Investing Activities:								
Purchase of investments	(4,462)	(2,662,942)	-0-	(2,667,404)	(1,726,877)	(3,001,677)	-0-	(4,728,554)
Maturity of investments	799,997	2,085,115	-0-	2,885,112	680,678	3,576,235	-0-	4,256,913
Proceeds from sale of property and equipment	47,636	-0-	-0-	47,636	23,795	-0-	-0-	23,795
Acquisition of property and equipment	(1,171,798)	(443,619)	-0-	(1,615,417)	(235,531)	(860,962)	-0-	(1,096,493)
Net Cash Used by Investing Activities	(328,626)	(1,021,446)	-0-	(1,350,073)	(1,257,935)	(286,404)	-0-	(1,544,339)
Net Decrease in Cash and Cash Equivalents	(270,373)	(149,423)	-0-	(419,796)	(232,138)	(136,836)	-0-	(368,974)
Cash and Cash Equivalents, Beginning of Year	1,811,967	393,286	-0-	2,205,253	2,044,105	530,122	-0-	2,574,227
Cash and Cash Equivalents, End of Year	\$ 1,541,594	243,863	\$ -0-	1,785,457	\$ 1,811,967	\$ 393,286	\$ -0-	\$ 2,205,253
Analysis of Cash and Cash Equivalents:								
Cash and cash equivalents, unrestricted	\$ 1,434,392	\$ -0-	\$ -0-	1,434,392	\$ 1,249,504	\$ -0-	\$ -0-	\$ 1,249,504
Cash and cash equivalents, designated and restricted	107,202	243,863	-0-	351,065	562,463	393,286	-0-	955,749
	\$ 1,541,594	243,863	\$ -0-	1,785,457	\$ 1,811,967	\$ 393,286	\$ -0-	\$ 2,205,253
Supplemental Disclosure:								
Income taxes paid	\$ 30,000	\$ -0-	\$ -0-	\$ 30,000	\$ 34,188	\$ -0-	\$ -0-	\$ 34,188

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

1. Form of Organization

Sun City Roseville Community Association, Inc. (the "Association") is a non-profit, mutual benefit corporation organized under the laws of California. The Association's members consist of those persons or entities owning the 3,110 lots within the Sun City Roseville subdivision in Roseville, California. The Association was organized to provide management services and maintenance of certain common use areas and recreation facilities within the subdivision. The Association also exercises architectural control over the lots within the subdivision.

The Association operates and maintains facilities that include two golf courses, clubhouse with a restaurant and bar, fitness center, swimming pools, parks and greenbelts, and tennis courts. Revenues are derived from the use of some of these facilities. Assessments are levied annually against each member's lot in the development. The Association derives approximately 50% of its total revenue (net of cost of sales) from assessments which are levied equally against each member's lot.

The Association's Board of Directors is comprised of seven members elected by Association members. All directors of the Association shall serve for a term of three (3) years. The terms shall be staggered so that three (3) directors are elected every three (3) years and two (2) directors are elected in each of the intervening years. The Board of Directors, among other things, establishes assessments of members of the Association and establishes fees for the use of Association amenities.

2. Summary of Significant Accounting Policies

A. The Association's governing documents provide certain guidelines for managing 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 in the following funds established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association. Included in this fund is the emergency reserve and capital improvement savings.

Reserve Fund - Used to account for financial resources designated for future major repairs and major maintenance and replacements. Included in this fund is the building and facilities reserve.

Property and Equipment Fund - Used to account for the Association's investment in its common property and equipment.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

- B. Property of the Association includes certain facilities turned over to the Association by the developer in prior years. These facilities include the golf courses, tennis courts, pools, parks and greenbelts, fitness center, recreation center and clubhouse, and certain common land. These assets are reflected in the accounts at the developer's cost basis. Subsequent purchases of property and equipment and improvements to real property are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years. The Association may not transfer its common real property without the approval of 75% of its members.
- C. It is the Association's policy to account for funding and replacement of common area property and equipment with a cost greater than \$5,000 and a useful life greater than 3 years and less than 30 years, and major maintenance, through a reserve fund. Included in the annual lot assessment is a provision, as determined by the Board of Directors, for replacement of these items. The funds are designated for major repairs and replacements. When major repairs or replacements occur, the expenditures are charged against the fund balance or, if certain conditions are met, a transfer is made to the property and equipment fund and the expenditures are capitalized.

The Association determines the required amount of funding for replacement of common areas, in part, using the cash flow method. This method requires preparation of a cash flow forecast. The Association has scheduled estimates for future major repairs and replacements over a 30 year period and has determined the required amount of funding by using the amount of assessments that will keep the reserve fund solvent over a 30 year period.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to any necessary member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

- D. Inventories are stated at the lower of cost (first-in, first-out method) or market.
- E. Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Accounts receivable at the balance sheet date primarily represent amounts due from members. The Association's collection policy includes, among other things, assessing a late charge and interest, filing a lien, and assessing a lien fee on payments not received within the allowable time periods. The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for doubtful accounts is created when an

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

account's collectability is uncertain. Accounts are written off when the Association's management determines that an account is uncollectible due to an event such as a bankruptcy or foreclosure proceedings.

- F. Deferred revenues primarily represent lot assessments and amenity fees received in the current fiscal year, which apply to the subsequent fiscal year.
- G. It is the Association's policy to record interest income and the related income tax expense directly to the respective fund holding the investments.
- H. Advertising costs are expensed as incurred. For the year ended June 30, 2017 and 2016, advertising costs totaled approximately \$74,000 and \$72,000, respectively.
- I. For state purposes, the Association is taxed as a membership organization. As such, the Association is generally taxed only on non-member income, such as investment earnings, advertising income and gains on sale of assets, at regular state corporate tax rates. For federal purposes, the Association has tax-exempt status as a non-profit organization under Internal Revenue Code 501(c)(4). Unrelated business income earned by the Association, such as newsletter advertising income, is taxed net of related expenses at regular federal corporate tax rates.

The Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.

- J. For the purposes of the Statements of Cash Flows, cash and cash equivalents are defined as petty cash and amounts held in checking and money market demand accounts.
- K. The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.
- L. The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of 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.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Association to credit risk consist principally of members' accounts receivable. Accounts receivable at June 30, 2017 and 2016 are primarily from members whose residence is within the Association.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The Association maintains demand accounts at various banks. At June 30, 2017 and 2016, the aggregate balance of these accounts exceeded the federally insured limits by \$1,260,700 and \$920,595, respectively. The Association, through its bank, has private insurance for amounts that exceed federally insured limits.

4. Fair Value Measurement

The Financial Accounting Standards Board (the “FASB”)’s authoritative guidance on fair value measurements establishes a framework for measuring fair value and requires disclosure about the fair value measurements of assets and liabilities. This guidance requires the Association to classify and disclose assets and liabilities measured at fair value on a recurring basis, as well as fair value measurements of assets and liabilities measured on a nonrecurring basis in periods subsequent to initial measurement, in a three-tier fair value hierarchy as described below.

The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Association measures its cash equivalents, investments and accrued interest receivable at fair value. The Association classifies its cash equivalents, investments and accrued interest receivable within Level 1 or Level 2 because the Association values these investments using quoted market prices or alternative pricing sources and models utilizing market observable inputs. The fair value of the Association’s Level 1 financial assets is based on quoted market prices of the identical underlying security. The fair value of the Association’s Level 2 financial assets is based on inputs that are directly or indirectly observable in the market, including the readily-available pricing sources for the identical underlying security that may not be actively traded.

The following tables set forth the estimated fair value of the Association’s financial assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, based on the three-tier fair value hierarchy:

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

	2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,785,457	\$ -0-	\$ -0-	\$ 1,785,457
Investments:				
Mutual Funds	645,055	-0-	-0-	645,055
Other Assets:				
Accrued interest receivable	-0-	38,204	-0-	38,204
Total	\$ 2,430,512	\$ 38,204	\$ -0-	\$ 2,468,716

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,205,253	\$ -0-	\$ -0-	\$ 2,205,253
Investments:				
Mutual Funds	198,653	-0-	-0-	198,653
Other Assets:				
Accrued interest receivable	-0-	40,859	-0-	40,859
Total	\$ 2,403,906	\$ 40,859	\$ -0-	\$ 2,444,765

5. Investments

Association investments consist of certificates of deposit, municipal securities, governmental securities and equity mutual funds, and amounted to \$8,257,002 and \$8,474,713 at June 30, 2017 and 2016, respectively. Varying types and levels of safety protection cover the various Association investments, including FDIC insurance, SIPC insurance, privately funded bank insurance, and the backing of the US Treasury and its agencies.

Municipal securities, governmental securities and certificates of deposit are carried at amortized cost as they are classified as held to maturity investments since the Association has the positive intent and ability to hold all securities until maturity. Mutual funds are classified as available-for-sale. Available for sale securities are carried at fair value with the net unrealized holding gains (losses) included in accumulated other comprehensive income.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The amortized cost, gross unrealized gains and losses and aggregate fair value of available-for-sale and held-to-maturity investment securities at June 30, 2017 and 2016 are as follows:

	2017			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Mutual funds	\$ 597,252	\$ 47,803	\$ -0-	\$ 645,055
Total available for sale	\$ 597,252	\$ 47,803	\$ -0-	\$ 645,055
Held to maturity:				
Certificates of Deposit	\$ 4,862,518	\$ 34,537	\$ (42,945)	\$ 4,854,110
Municipal Securities	1,237,887	14,290	(35,652)	1,216,525
US Treasury Securities	1,511,542	873	(43,903)	1,468,512
Total held to maturity	\$ 7,611,947	\$ 49,700	\$ (122,500)	\$ 7,539,147

	2016			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Mutual funds	\$ 197,505	\$ 2,109	\$ (961)	\$ 198,653
Total available for sale	\$ 197,505	\$ 2,109	\$ (961)	\$ 198,653
Held to maturity:				
Certificates of Deposit	\$ 5,668,360	\$ 88,992	\$ -0-	\$ 5,757,352
Municipal Securities	1,160,512	30,495	-0-	1,191,007
US Treasury Securities	1,442,668	8,993	-0-	1,451,661
Total held to maturity	\$ 8,271,540	\$ 128,480	\$ -0-	\$ 8,400,020

The maturities of the held to maturity securities and their approximate fair value at June 30, 2017 and 2016 are as follows:

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 838,473	\$ 844,732	\$ 1,673,414	\$ 1,680,947
Due in one to five years	2,868,395	2,879,009	3,407,376	3,482,763
Due in six to ten years	3,687,576	3,607,663	3,076,887	3,127,023
Due in 10 or more years	217,503	207,743	113,863	109,288
	\$ 7,611,947	\$ 7,539,147	\$ 8,271,540	\$ 8,400,021

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

At June 30, 2017, the net unrealized holding gain, net of deferred income taxes, included as a separate component of replacement fund equity is \$43,577. At June 30, 2016, the net unrealized holding gain, net of deferred income taxes, included as a separate component of replacement fund equity is \$1,149. The Association uses the first-in-first-out (FIFO) method to determine the cost when calculating realized gains and losses on sales of debt and equity securities. During the years ended June 30, 2017 and 2016, the Association sold \$544,107 and \$28,977 in available for sale securities and realized \$2,301 and \$865 in net gains, respectively.

During 2017, eleven held to maturity investments were called at a sale price of \$1,071,500 and carrying value of \$1,081,480 resulting in a net realized gain of \$9,980. During 2016, twelve held to maturity investments were called at a sale price of \$1,269,000 and carrying value of \$1,247,873 resulting in a net realized gain of \$21,127.

6. Property and Equipment

A summary of Association property and equipment at June 30, 2017 and 2016 is as follows:

	2017	2016
Land	\$ 6,468,059	\$ 6,468,059
Land improvements	16,242,340	16,242,340
Buildings	13,886,528	12,743,280
Furniture and equipment	8,559,510	8,765,428
Vehicles	151,227	151,227
	<u>45,307,664</u>	<u>44,370,334</u>
Less accumulated depreciation	(13,239,260)	(12,948,391)
Construction in progress	44,678	129,225
	<u>\$ 32,113,082</u>	<u>\$ 31,551,168</u>

7. Income Taxes

The provision (benefit) for income taxes for the years ended June 30, 2017 and 2016 is as follows:

	2017	2016
State	\$ 27,984	\$ 35,960
Federal	<u>-0-</u>	<u>-0-</u>
	<u>\$ 27,984</u>	<u>\$ 35,960</u>

Federal income tax expense has been reduced in both years by general tax credits available to the Association.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

8. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Repairs and maintenance:		
Lodge refurbishment	\$ 4,918	\$ 33,680
Fitness center refurbishment	-0-	25,810
Ballroom dance floor repairs	-0-	9,100
Restaurant wood stain	4,711	-0-
Roof work	10,745	-0-
Sports court	59,378	-0-
Lodge front entrance	-0-	15,211
Kitchen sewer lines	26,037	-0-
Other	-0-	4,550
	\$ 105,789	\$ 88,351
	2017	2016
Property and equipment replacement:		
Equipment	\$ 401,724	\$ 133,105
Restaurant carpet	19,914	-0-
Furniture and fixtures	21,981	103,390
Recreation center	-0-	624,467
	\$ 443,619	\$ 860,962

9. Retirement Benefit Plan

The Association maintains a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code. The plan is available to all eligible employees upon completing three months of employment. The total amount deferred in any calendar year may not exceed the applicable IRS limit. Each year, the Association may choose to contribute a discretionary matching percentage of employee deferrals. At June 30, 2017 and 2016, the Association matched 100% of employee contributions up to the first 3% of the employee's earnings and 50% of the employee contributions on the next 2%. For the years ended June 30, 2017 and 2016, employer matching contributions are \$129,038 and \$105,635 respectively.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2017 and 2016

10. Operating Lease

The Association has entered into several non-cancelable operating lease agreements for the use of golf carts and other equipment. Lease rent expense was \$79,218 and \$77,648 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2017, future minimum lease payments under such leases are as follows:

<u>Year Ending June 30</u>	
2018	<u>\$ 33,080</u>
	<u>\$ 33,080</u>

11. Member Assessments 2017/2018

The Association's Board of Directors has approved a regular assessment of \$1,872 per lot (\$156 per month) for the year ending June 30, 2018. Total member's assessments are \$5,821,920, of which \$940,464 will be allocated to the reserve fund.

12. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Capital improvement savings	\$ 107,202	\$ 1,212,463
Operating emergency account	405,789	400,794
Operating surplus (deficit)	<u>192,060</u>	<u>290,232</u>
	<u>\$ 705,051</u>	<u>\$ 1,903,489</u>

13. Litigation

From time to time, certain claims arising in the ordinary course of business are filed against the Association. The Association has vigorously defended these claims. Currently no pending or threatened litigation exists.

14. Commitment

In May of 2015, the Association entered into an agreement with a contractor for the restaurant expansion project in the amount of \$877,289. Change orders were initiated during fiscal 2017 bringing the total contract to \$1,029,584. The association is holding the final payment of \$38,645 due to issues with the installation and quality of the new bar top.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

The disputed payment has not been recorded to the Association's financials as of June 30, 2017.

15. Subsequent Events

Subsequent events have been evaluated by management through September 15, 2017, the date that the statements were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
June 30, 2017
(Unaudited)

(See Independent Auditors' Report)

The Association' updated a study in 2017 to estimate the remaining useful lives, the lives after replacement, and the replacement costs of the components of common property. The estimates were based on management's and contractors' estimates and historical costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 2% inflation factor.

The Association does not designate the balance of the reserve fund by component. The total amount available for major repairs and replacements as of June 30, 2017 is \$8,083,275. The 2017-2018 budget includes \$940,464 of assessments allocated to the reserve fund, plus \$202,084 of investment earnings.

The Association's policy is to fund for the assets included in the reserve, including inflation at 2% per year, prorated over the remaining useful lives of the assets. For further information and discussion, including the use of the cash flow method for determining funding amounts, see Note 2 (c) in the accompanying financial statements.

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

Department/Component	Range of Remaining Lives (Years)	Range of Lives After Replacement (Years)	Current Replacement Costs
Equipment	0-30	5-35	\$ 5,463,088
Golf course	1-7	6-24	207,108
Golf course irrigation	3-21	11-30	3,695,321
Fences and walls	7-21	16-30	217,364
Floor coverings	3-19	6-31	544,461
Furniture & fixtures	1-19	4-33	951,253
Landscape	3-6	12-15	161,320
Lighting	5-23	20-31	256,502
Painting	1-9	5-11	161,811
Paving	1-18	4-26	629,151
Pool	0-5	8-12	223,618
Roofing	3-18	20-40	364,802
Sport courts	0-4	4-15	138,695
Wall coverings	6-29	20-31	135,621
Window Coverings	3-9	6-12	45,778
Miscellaneous	1-19	3-35	1,828,589
			\$ 15,024,472