

SUN CITY ROSEVILLE  
COMMUNITY ASSOCIATION, INC.

Roseville, CA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2023 and 2022

SUN CITY ROSEVILLE  
COMMUNITY ASSOCIATION, INC.

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## INDEPENDENT AUDITORS' REPORT

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

### *Opinion*

We have audited the accompanying financial statements of Sun City Roseville Community Association, Inc., which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sun City Roseville Community Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sun City Roseville Community Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Sun City Roseville Community Association Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sun City Roseville Community Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Required Supplementary Information on Future Major Repairs and Replacements on page 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

*Change in Accounting Principle*

As discussed in Notes 2 and 6 to the financial statements, the Club changed its method of accounting for leases as of July 1, 2022 due to the adoption of Accounting Standard Codification Topic 842, Leases.

*McClintock Accountancy Corporation*

McCLINTOCK ACCOUNTANCY CORPORATION  
Tahoe City, California  
September 15, 2023

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS  
June 30, 2023 and 2022

	2023				2022			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
<b>ASSETS</b>								
Cash and cash equivalents	\$ 2,916,703	\$ 826,648	\$ -0-	\$ 3,743,351	\$ 3,411,546	\$ 565,584	\$ -0-	\$ 3,977,130
Cash and cash equivalents - common area improvement	1,613,401	-0-	-0-	1,613,401	575,984	-0-	-0-	575,984
Accounts receivable, net of allowance for doubtful accounts of \$5,001 in 2023 and \$5,025 in 2022	53,117	-0-	-0-	53,117	86,353	-0-	-0-	86,353
Interest and other receivables	1,719	57,099	-0-	58,818	22,337	53,409	-0-	75,746
Inventory	188,316	-0-	-0-	188,316	184,989	-0-	-0-	184,989
Prepaid expenses	287,118	45,600	-0-	332,718	313,732	-0-	-0-	313,732
Debt securities held-to-maturity (Note 7)	251,407	12,870,391	-0-	13,121,799	504,523	11,762,765	-0-	12,267,288
Debt securities held-to-maturity - common area improvement (Note 7)	679,906	-0-	-0-	679,906	2,022,090	-0-	-0-	2,022,090
Property and equipment, net (Note 8)	-0-	-0-	32,524,103	32,524,103	-0-	-0-	31,326,669	31,326,669
Right-of-use asset (Note 6)	-0-	-0-	509,368	509,368	-0-	-0-	-0-	-0-
Due to (from) other funds (Note 4)	77,622	(77,622)	-0-	-0-	58,767	(58,767)	-0-	-0-
Other assets	-0-	-0-	76,232	76,232	-0-	-0-	76,232	76,232
<b>Total Assets</b>	<b>\$ 6,069,309</b>	<b>\$ 13,722,116</b>	<b>\$ 33,109,703</b>	<b>\$ 52,901,128</b>	<b>\$ 7,180,321</b>	<b>\$ 12,322,991</b>	<b>\$ 31,402,901</b>	<b>\$ 50,906,213</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Accounts payable	\$ 257,060	\$ -0-	\$ -0-	\$ 257,060	\$ 151,391	\$ -0-	\$ -0-	\$ 151,391
Accrued expenses	733,497	11,423	-0-	744,920	764,892	8,062	-0-	772,954
Lease liability (Note 6)	-0-	-0-	509,368	509,368	-0-	-0-	-0-	-0-
Gift certificates and other deposits	216,130	-0-	-0-	216,130	238,546	-0-	-0-	238,546
Deferred revenue	1,564,257	-0-	-0-	1,564,257	1,582,248	-0-	-0-	1,582,248
<b>Total Liabilities</b>	<b>2,770,944</b>	<b>11,423</b>	<b>509,368</b>	<b>3,291,735</b>	<b>2,737,077</b>	<b>8,062</b>	<b>-0-</b>	<b>2,745,139</b>
<b>Fund Balances</b>								
Operating (Note 13)	3,298,365	-0-	-0-	3,298,365	4,443,244	-0-	-0-	4,443,244
Reserve	-0-	13,710,693	-0-	13,710,693	-0-	12,314,929	-0-	12,314,929
Property & equipment	-0-	-0-	32,600,335	32,600,335	-0-	-0-	31,402,901	31,402,901
<b>Total Fund Balances</b>	<b>3,298,365</b>	<b>13,710,693</b>	<b>32,600,335</b>	<b>49,609,393</b>	<b>4,443,244</b>	<b>12,314,929</b>	<b>31,402,901</b>	<b>48,161,074</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,069,309</b>	<b>\$ 13,722,116</b>	<b>\$ 33,109,703</b>	<b>\$ 52,901,128</b>	<b>\$ 7,180,321</b>	<b>\$ 12,322,991</b>	<b>\$ 31,402,901</b>	<b>\$ 50,906,213</b>

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, 2023 and 2022

	2023				2022			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Revenue:								
Members' assessments, net of \$-0- in assessment credits in 2023 and \$559,800 in 2022	\$ 5,590,536	\$ 1,388,304	\$ -0-	\$ 6,978,840	\$ 4,881,456	\$ 1,276,344	\$ -0-	\$ 6,157,800
Special use fees	568,750	-0-	-0-	568,750	741,000	-0-	-0-	741,000
Golf course operations, less cost of sales of \$218,394 in 2023 and \$179,554 in 2022	3,403,308	-0-	-0-	3,403,308	3,458,979	-0-	-0-	3,458,979
Food and beverage, less cost of sales of \$1,454,568 in 2023 and \$1,305,076 in 2022	2,929,695	-0-	-0-	2,929,695	2,516,670	-0-	-0-	2,516,670
Resident and newsletter activities, less cost of sales of \$467,217 in 2023 and \$276,413 in 2022	255,201	-0-	-0-	255,201	222,731	-0-	-0-	222,731
Fitness center, less cost of sales of \$71,502 in 2023 and \$64,264 in 2022	118,509	-0-	-0-	118,509	103,069	-0-	-0-	103,069
Processing fees	91,350	-0-	-0-	91,350	128,800	-0-	-0-	128,800
Interest and investment revenue	55,327	209,819	-0-	265,146	10,339	245,325	-0-	255,664
Other revenue	58,767	-0-	-0-	58,767	103,936	4,874	-0-	108,810
<b>Total Revenue</b>	<b>13,071,443</b>	<b>1,598,123</b>	<b>-0-</b>	<b>14,669,566</b>	<b>12,166,980</b>	<b>1,526,543</b>	<b>-0-</b>	<b>13,693,523</b>
Expenses:								
Administration	2,484,555	-0-	-0-	2,484,555	2,331,376	-0-	-0-	2,331,376
Golf course operations	3,167,143	-0-	-0-	3,167,143	3,002,919	-0-	-0-	3,002,919
Food and beverage	2,653,668	-0-	-0-	2,653,668	2,340,375	-0-	-0-	2,340,375
Resident and newsletter activities	493,018	-0-	-0-	493,018	464,825	-0-	-0-	464,825
Fitness center	434,023	-0-	-0-	434,023	375,450	-0-	-0-	375,450
Facilities maintenance	1,846,132	-0-	-0-	1,846,132	1,648,616	-0-	-0-	1,648,616
Landscaping	871,492	-0-	-0-	871,492	795,068	-0-	-0-	795,068
Reserve fund maintenance (Note 10)	-0-	214,173	-0-	214,173	-0-	-0-	-0-	-0-
Provision for income taxes (Note 9)	13,099	17,933	-0-	31,032	13,366	21,921	-0-	35,287
Loss on disposal of fixed assets	-0-	-0-	1,216	1,216	-0-	-0-	22,247	22,247
Depreciation	-0-	-0-	1,024,795	1,024,795	-0-	-0-	960,851	960,851
<b>Total Expenses</b>	<b>11,963,130</b>	<b>232,106</b>	<b>1,026,011</b>	<b>13,221,247</b>	<b>10,971,995</b>	<b>21,921</b>	<b>983,098</b>	<b>11,977,014</b>
Revenue Over (Under) Expenses	1,108,313	1,366,017	(1,026,011)	1,448,319	1,194,985	1,504,622	(983,098)	1,716,509
Capital Expenditures Transfer	(1,553,192)	(670,253)	2,223,445	-0-	(430,800)	(963,130)	1,393,930	-0-
Fund Balance - Beginning of Year	4,443,244	12,314,929	31,402,901	48,161,074	4,179,059	11,273,437	30,992,069	46,444,565
Fund Balance Transfer	(700,000)	700,000	-0-	-0-	(500,000)	500,000	-0-	-0-
<b>Fund Balance - End of Year</b>	<b>\$ 3,298,365</b>	<b>\$ 13,710,693</b>	<b>\$ 32,600,335</b>	<b>\$ 49,609,393</b>	<b>\$ 4,443,244</b>	<b>\$ 12,314,929</b>	<b>\$ 31,402,901</b>	<b>\$ 48,161,074</b>

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit C

STATEMENTS OF CASH FLOWS  
For the Years Ended June 30, 2023 and 2022

	2023				2022			
	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	\$ 1,108,313	\$ 1,366,017	\$ (1,026,011)	\$ 1,448,319	\$ 1,194,985	\$ 1,504,622	\$ (983,098)	\$ 1,716,509
Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:								
Depreciation	-0-	-0-	1,024,795	1,024,795	-0-	-0-	960,851	960,851
Amortization of investments	(34,201)	54,837	-0-	20,636	(37,376)	62,167	-0-	24,791
Bad debt expense	4,078	-0-	-0-	4,078	10,186	-0-	-0-	10,186
Fund balance transfer	(700,000)	700,000	-0-	-0-	(500,000)	500,000	-0-	-0-
Proceeds from property sale, conversion of (gain)/loss	(4,640)	-0-	1,216	(3,424)	(66,636)	-0-	22,247	(44,389)
Net gain on sales of equity investments	-0-	-0-	-0-	-0-	0	(253,177)	-0-	(253,177)
Fair value adjustments on equity investments	-0-	-0-	-0-	-0-	-0-	186,837	-0-	186,837
(Increase) Decrease in assets:								
Accounts receivable	29,158	-0-	-0-	29,158	(29,040)	-0-	-0-	(29,040)
Interest and other receivables	20,618	(3,690)	-0-	16,928	5,372	(9,143)	-0-	(3,771)
Inventory	(3,327)	-0-	-0-	(3,327)	(20,599)	-0-	-0-	(20,599)
Prepaid expenses	26,614	(45,600)	-0-	(18,986)	(71,819)	8,615	-0-	(63,204)
Increase (Decrease) in liabilities:								
Accounts payable	105,669	-0-	-0-	105,669	(111,498)	-0-	-0-	(111,498)
Accrued expenses	(31,395)	3,361	-0-	(28,034)	194,284	8,062	-0-	202,346
Due to/from other funds	(18,855)	18,855	-0-	-0-	168,189	(168,189)	-0-	-0-
Gift certificates and other deposits	(22,416)	-0-	-0-	(22,416)	54,069	-0-	-0-	54,069
Deferred revenues	(17,991)	-0-	-0-	(17,991)	295,304	-0-	-0-	295,304
Deferred taxes	-0-	-0-	-0-	-0-	-0-	(16,415)	-0-	(16,415)
Net Cash Provided by Operating Activities	461,625	2,093,780	-0-	2,555,405	1,085,421	1,823,379	-0-	2,908,800
Cash Flows from Investing Activities:								
Purchase of investments	(1,807,727)	(2,371,463)	-0-	(4,179,190)	(3,995,635)	(3,541,809)	-0-	(7,537,444)
Maturity of investments	3,437,228	1,209,000	-0-	4,646,228	3,567,041	2,716,601	-0-	6,283,642
Proceeds from sale of property and equipment	4,640	-0-	-0-	4,640	66,636	-0-	-0-	66,636
Acquisition of property and equipment	(1,553,192)	(670,253)	-0-	(2,223,445)	(430,800)	(963,130)	-0-	(1,393,930)
Net Cash Provided (Used) by Investing Activities	80,949	(1,832,716)	-0-	(1,751,767)	(792,758)	(1,788,338)	-0-	(2,581,096)
Net Increase in Cash and Cash Equivalents	542,574	261,064	-0-	803,638	292,663	35,041	-0-	327,704
Cash and Cash Equivalents, Beginning of Year	3,987,530	565,584	-0-	4,553,114	3,694,867	530,543	-0-	4,225,410
Cash and Cash Equivalents, End of Year	\$ 4,530,104	\$ 826,648	\$ -0-	\$ 5,356,752	\$ 3,987,530	\$ 565,584	\$ -0-	\$ 4,553,114
Analysis of Cash and Cash Equivalents:								
Cash and cash equivalents, unrestricted	\$ 2,916,703	\$ -0-	\$ -0-	2,916,703	\$ 3,411,546	\$ -0-	\$ -0-	3,411,546
Cash and cash equivalents, designated and restricted	1,613,401	826,648	-0-	2,440,049	575,984	565,584	-0-	1,141,568
	\$ 4,530,104	\$ 826,648	\$ -0-	\$ 5,356,752	\$ 3,987,530	\$ 565,584	\$ -0-	\$ 4,553,114
Supplemental Disclosure:								
Income taxes paid	\$ 22,132	\$ -0-	\$ -0-	22,132	\$ 30,116	\$ -0-	\$ -0-	30,116

The accompanying notes are an integral part of these statements.



SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 became owner in title to a lot during 2021 through non-judicial foreclosure. It is the intention of the Association to allow the first lien holder to take possession of the lot. Estimated recovery of the lot is \$-0-, which approximates the fair value as of June 30, 2023.

The Association operates and maintains facilities that include two golf courses, 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 common area improvement account.

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 THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

- 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, restaurant and bar 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 40 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 account's collectability is uncertain. Accounts are written off when the Association's

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

management determines that an account is uncollectible due to an event such as a bankruptcy or foreclosure proceedings.

- F. The Association has adopted the provisions of Accounting Standards Codification Topic 606, Revenue from Contracts with Customers, ("Topic 606" in the Accounting Standards Codification (ASC)). Topic 606 superseded the revenue recognition requirements in FASB ASC 972-605, Real Estate—Common Interest Realty Associations, Revenue Recognition. Under Topic 606, the Association must identify a contract with a customer, among other things, and recognize revenue as the Association satisfies a performance obligation.

As described in Note 2. E., Association members are subject to annual assessments that provide funds for the Association's operating expenses and major repairs and replacements. Association management has considered Topic 606 and concluded that Association members are not customers as defined in the ASC. As such, all assessment revenue, including amounts allocated to the replacement fund, is recognized in the period in which it is assessed, regardless of when it is collected or expended.

- G. Deferred revenue primarily represent lot assessments and amenity fees received in the current fiscal year, which apply to the subsequent fiscal year.
- H. It is the Association's policy to record interest income and the related income tax expense directly to the respective fund holding the investments.
- I. Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, advertising costs totaled approximately \$30,000 and \$36,000, respectively.
- J. 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.

- K. 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.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

- L. 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.
- M. 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.
- N. In fiscal 2023, the Association adopted Accounting Standards Update (ASU) No. 2016-02, Leases, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The Association elected not to restate the prior period (2022). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. As a result of implementing ASU No. 2016-02, the Association recognized right-of-use assets of \$582,230 and lease liabilities totaling \$582,230 in its statement of financial position as of November, 2022. See note 6 for details of the lease liabilities as of June 30, 2023. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.
- O. Certain reclassifications have been made to the 2022 financial statements to conform to the classifications used in 2023. The reclassifications have no impact on the financial position or results of operations for 2022.

3. Revenues from Contracts with Customers

*Revenue Recognition*

The following provides information about the Association's composition of revenue recognized from contracts with customers, the performance obligations under those contracts, and the significant judgments made in accounting for those contracts:

Food and beverage revenue is derived from restaurant, room rentals and catering. Revenue is recognized at a point in time when performance obligations are satisfied by transferring controls of the underlying goods to the customer.

Resident activities revenue is derived primarily from trips, events, and room rentals. Revenue is recognized at a point in time when performance obligations are satisfied by transferring control of the underlying goods to the customer. The Association records deferred revenue primarily related to the advance sale of resident activities.

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Newsletter revenue is derived primarily from newsletter ad sales. Revenue is recognized over time as performance obligations are satisfied as control of the good (e.g. inclusion of ad in the monthly newsletter) is transferred to the customer. Deferred revenue relates to sales of newsletter ad space for multiple monthly publications in advance.

Fitness center revenue is derived primarily from a variety of class and training session-based revenues and retail sales. Revenue is recognized over time as performance obligations are satisfied as control of the good (e.g. attendance in fitness class, use of personal training session, etc.) is transferred to the customer, except for retail sales which are recognized at a point in time when performance obligations are satisfied by transferring control of the underlying goods to the customer.

Golf course revenue is derived from annual and daily passes, tournament fees, and golf cart rentals. Revenue is recognized at a point in time when performance obligations are satisfied by transferring control of the underlying goods, except for annual golf pass and cart rental sales which are recognized over time as performance obligations are satisfied as control of the good or service (e.g. access to golf course) is transferred to the customer. The Association records deferred revenue primarily related to the advance sale of annual golf pass and cart memberships.

Other revenue sources not previously mentioned provide revenue from a variety of means including special use fees, processing fees, late fees, etc. Revenue is recognized over time as performance obligations are satisfied as control of the good or service is transferred to the customer.

*Contract Balances*

Contract liabilities are recorded primarily as deferred revenues when payments are received or due in advance of the Association's performance, including amounts which may be refundable. The deferred revenue balance is primarily related to accounts receivable or cash payments recorded in advance of satisfying the Association's performance obligations related advance purchase products consisting primarily newsletter and website advertising space, golf passes, and resident trips. Deferred revenue balances related to contracts was approximately \$1,068,000 and \$1,125,000 as of June 30, 2023 and 2022, respectively. For the year ended June 30, 2023, the Association recognized approximately \$1,125,000 of contract revenue that was included in the deferred revenue balance as of June 30, 2022. For the year ended June 30, 2022, the Association recognized approximately \$919,000 of contract revenue that was included in the deferred revenue balance as of June 30, 2021.

Contract assets are recorded as trade receivables when the right to consideration is unconditional. Trade receivable balances were approximately \$18,000 and \$14,000 as of June 30, 2023 and 2022, respectively. Payments from customers are based on billing terms established in the contracts with customers, which vary by the type of customer, the location and the products or services offered. The term between invoicing and when

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payment is due is not significant. For certain products or services and customer types, contracts require payment before the products are delivered or services are provided to the customer. Impairment losses related to contract assets are recognized through the Association's allowance for doubtful accounts analysis. Contract asset write-offs are evaluated on an individual basis.

*Costs to Obtain Contracts with Customers*

Utilizing the practical expedient provided for under Topic 606, the Company has elected to expense credit card fees related to contracts with customer as incurred, as the amortization period is generally one year or less for the time between customer purchase and utilization. These fees are recorded within departmental expenses on the Association's Statement of Revenue and Expenses and Changes in Fund Balances.

4. Interfund Activity

The Association maintains two funds. The reserve portion of the overall assessment is deposited first to the operating fund and transferred to the reserve fund. At various times during the year, there is a receivable/payable (due to/from) between funds. At June 30, 2023 and 2022, the reserve fund owed the operating fund \$77,622 and \$58,767, respectively.

5. 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, 2023 and 2022 are primarily from members whose residence is within the Association.

The Association maintains demand accounts at various banks. At June 30, 2023 and 2022, the aggregate balance of these accounts exceeded the federally insured limits by \$2,868,845 and \$3,546,645, respectively. The Association, through its bank, has private insurance for amounts that exceed federally insured limits.

6. Operating Lease

The Association evaluated current contracts to determine which met the criteria of a lease. The right-of-use (ROU) asset represents the Association's right to use the underlying asset for the lease term, and the lease liability represents the Association's obligation to make lease payments arising from the lease. The ROU asset and lease liability were calculated based on the present value of future lease payments over the lease term. The Association has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate the lease liability as of June 30, 2023, was 2.89%. The Association's operating lease consists of golf carts. The lease terminates in October 2027. The lease

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requires minimum monthly payments of \$10,433. The lease does not contain options or rights of renewal.

For the year ending June 30, 2023, operating lease expense was \$118,714. As of June 30, 2023, the remaining lease term was approximately 4.25 years.

Future maturity of the lease liability is presented in the following table for the fiscal years ending June 30:

2024	\$ 125,202
2025	125,202
2026	125,202
2027	125,202
2028	41,733
	<hr/>
	542,541
Less: present value discount	(33,173)
	<hr/>
	\$ 509,368
	<hr/>

Rent expense under FASB ASC 840 (pre-adoption of new standards) for the previous operating lease for golf carts was \$126,594 for the year ended June 30, 2022. The lease terminated in 2022.

7. Debt Securities Held-to-Maturity

Association investments consisted of debt securities held-to-maturity at June 30, 2023 and 2022. 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 debt securities since the Association has the positive intent and ability to hold all securities until maturity.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2023 and 2022

The amortized cost/ net carrying value of debt securities held-to-maturity a June 30, 2023 and 2022 are as follows:

	2023	2022
	Amortized Cost/Net Carrying Value	Amortized Cost/Net Carrying Value
Held to maturity:		
Certificates of Deposit	\$ 4,273,468	\$ 5,613,396
Municipal Securities	3,706,166	4,330,470
US Treasury Securities	5,822,070	4,345,512
Total held to maturity	<u>\$ 13,801,704</u>	<u>\$ 14,289,378</u>

The maturities of the debt securities held-to-maturity at June 30, 2023 and 2022 are as follows:

	2023	2022
Due in one year or less	\$ 2,480,964	\$ 2,934,747
Due in one to five years	5,819,465	5,232,252
Due in six to ten years	5,450,140	5,595,758
Due in 10 or more years	51,135	526,621
	<u>\$ 13,801,704</u>	<u>\$ 14,289,378</u>

8. Property and Equipment

A summary of Association property and equipment at June 30, 2023 and 2022 is as follows:

	2023	2022
Land	\$ 6,472,055	\$ 6,472,055
Land improvements	17,786,978	16,409,163
Buildings	14,044,754	13,995,176
Furniture and equipment	9,565,593	9,493,996
Vehicles	175,957	208,951
	<u>48,045,337</u>	<u>46,579,341</u>
Less accumulated depreciation	(16,376,640)	(16,119,657)
Construction in progress	855,406	866,985
	<u>\$ 32,524,103</u>	<u>\$ 31,326,669</u>

Construction in progress as of June 30, 2023 and 2022 consisted primarily of improvements to landscaping and building renovation.



SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

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June 30, 2023 and 2022

9. Income Taxes

The provision for income taxes for the years ended June 30 is as follows:

	2023	2022
Federal	\$ -0-	\$ -0-
State	31,032	35,289
	\$ 31,032	\$ 35,289

Federal income tax expense has been reduced in both years by general tax credits available to the Association. As of June 30, 2023 and 2022, the Association had federal tax credits available for taxes paid on tips of \$54,399 and \$46,651, respectively.

10. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Fencing major repairs	\$ 74,330	\$ -0-
Asphalt major repairs	84,860	-0-
Locker room major repairs	17,966	-0-
Miscellaneous major repairs	37,017	-0-
Total reserve fund maintenance	214,173	-0-
Property and equipment replacement:		
Furniture and equipment	439,030	702,604
Building	-0-	80,724
Land improvements	30,649	-0-
Construction in progress	200,574	179,802
Total property and equipment replacement	670,253	963,130
	\$ 884,426	\$ 963,130

11. 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, 2023 and 2022, 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, 2023 and 2022, employer matching contributions are \$177,443 and \$155,916, respectively.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

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12. Member Assessments 2023/2024

The Association's Board of Directors has approved a regular assessment of \$2,400 per lot (\$200 per month) for the year ending June 30, 2024.

13. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Common area improvement savings	\$ 2,184,466	\$ 2,598,074
Operating emergency account	410,648	401,091
Operating surplus	703,251	1,444,079
	<u>\$ 3,298,365</u>	<u>\$ 4,443,244</u>

The balances at June 30, 2023 reflect \$108,841 that was due from the common area improvement savings to the operating surplus. The balance was repaid after year end.

14. 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.

15. Subsequent Events

Subsequent events have been evaluated by management through September 15, 2023, the date that the statements were available for issuance.

**REQUIRED SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS**

June 30, 2023

(Unaudited)

The Association updated a study in 2023 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 2.75% inflation factor.

The Association does not designate the balance of the reserve fund by component. The total available for major repairs and replacements as of June 30, 2023 is \$13,710,693. The 2023/2024 budget includes \$1,388,304 of assessments allocated to the reserve fund, plus \$314,165 of investment earnings.

The Association's policy is to fund for the assets included in the reserve, including inflation at 2.75% 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
Paving	2-7	4-24	\$ 788,833
Roofing	0-12	20-40	447,805
Painting	1-4	5-10	223,966
Fencing & walls	1-25	16-40	271,183
Lighting	3-17	20-30	314,285
Pools & pool areas	1-7	6-10	257,742
Sports courts	0-5	4-15	136,377
Furniture & fixtures	0-19	6-30	1,211,038
Floor coverings	0-13	6-30	669,604
Wall coverings	1-29	20-30	174,335
Window coverings	1-3	10	62,408
Equipment	0-24	0-40	6,830,703
Golf course	0-9	5-20	210,832
Irrigation - golf courses	5-15	12-40	6,472,014
Landscaping & irrigation - common areas	1-29	12-30	643,880
Miscellaneous	1-24	8-30	1,843,745
			<u>\$ 20,558,750</u>