

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

Roseville, CA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2018 and 2017

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

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McCLINTOCK ACCOUNTANCY CORPORATION

ROBERT J. McCLINTOCK, CPA
MICHAEL R. GRIESMER, CPA
ALICE HAHN

SHARON FERREIRA, CPA
KENDALL GALKA, CPA

305 WEST LAKE BOULEVARD
P. O. BOX 6179
TAHOE CITY, CA 96145
TELEPHONE: 530-583-6994
FAX: 530-583-5405

11500 DONNER PASS RD.
SUITE B
P. O. BOX 2468
TRUCKEE, CA 96160
TELEPHONE: 530-587-9221
FAX: 530-587-4946

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, 2018 and 2017, 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, 2018 and 2017, 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 13, 2018

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|---------------------|---------------------|---------------------------|----------------------|---------------------|---------------------|---------------------------|----------------------|
| | Operating Fund | Reserve Fund | Property & Equipment Fund | Total | Operating Fund | Reserve Fund | Property & Equipment Fund | Total |
| ASSETS | | | | | | | | |
| Cash and cash equivalents | \$ 1,847,712 | \$ 364,453 | \$ -0- | \$ 2,212,165 | \$ 1,434,392 | \$ 243,863 | \$ -0- | \$ 1,678,255 |
| Cash and cash equivalents - common area improvement | 183,310 | -0- | -0- | 183,310 | 107,202 | -0- | -0- | 107,202 |
| Accounts receivable, net of allowance for doubtful accounts of \$-0- in 2018 and \$5,395 in 2017 | 57,983 | -0- | -0- | 57,983 | 29,666 | -0- | -0- | 29,666 |
| Interest and other receivables | 4,570 | 38,148 | -0- | 42,718 | 3,040 | 35,164 | -0- | 38,204 |
| Inventory | 198,355 | -0- | -0- | 198,355 | 209,512 | -0- | -0- | 209,512 |
| Prepaid expenses | 394,622 | 655 | -0- | 395,277 | 249,921 | 1,266 | -0- | 251,187 |
| Investments, amortized cost (Note 5) | 578,030 | 7,282,119 | -0- | 7,860,149 | 580,658 | 7,031,289 | -0- | 7,611,947 |
| Investments, fair value (Notes 4 and 5) | -0- | 941,089 | -0- | 941,089 | -0- | 645,055 | -0- | 645,055 |
| Investments - common area improvement, amortized cost (Note 5) | 149,664 | -0- | -0- | 149,664 | -0- | -0- | -0- | -0- |
| Other assets | 100 | -0- | 76,233 | 76,333 | -0- | -0- | 76,233 | 76,233 |
| Property and equipment, net (Note 6) | -0- | -0- | 31,726,724 | 31,726,724 | -0- | -0- | 32,113,082 | 32,113,082 |
| Total Assets | \$ 3,414,346 | \$ 8,626,464 | \$ 31,802,957 | \$ 43,843,767 | \$ 2,614,391 | \$ 7,956,637 | \$ 32,189,315 | \$ 42,760,343 |
| LIABILITIES AND FUND BALANCES | | | | | | | | |
| Accounts payable | \$ 302,082 | \$ -0- | \$ -0- | \$ 302,082 | \$ 180,560 | \$ -0- | \$ -0- | \$ 180,560 |
| Accrued expenses | 477,380 | -0- | -0- | 477,380 | 370,879 | -0- | -0- | 370,879 |
| Deferred tax liability | -0- | 11,777 | -0- | 11,777 | -0- | 4,226 | -0- | 4,226 |
| Due to (from) other funds | (5,102) | 5,102 | -0- | -0- | 130,863 | (130,863) | -0- | -0- |
| Gift certificates and other deposits | 207,250 | -0- | -0- | 207,250 | 201,482 | -0- | -0- | 201,482 |
| Deferred revenue | 1,128,660 | -0- | -0- | 1,128,660 | 1,025,556 | -0- | -0- | 1,025,556 |
| Total Liabilities | 2,110,270 | 16,879 | -0- | 2,127,149 | 1,909,340 | (126,637) | -0- | 1,782,703 |
| Fund Balances | | | | | | | | |
| Operating (Note 12) | 1,304,076 | -0- | -0- | 1,304,076 | 705,051 | -0- | -0- | 705,051 |
| Reserve | -0- | 8,488,141 | -0- | 8,488,141 | -0- | 8,039,697 | -0- | 8,039,697 |
| Accumulated other comprehensive income | -0- | 121,444 | -0- | 121,444 | -0- | 43,577 | -0- | 43,577 |
| Property & equipment | -0- | -0- | 31,802,957 | 31,802,957 | -0- | -0- | 32,189,315 | 32,189,315 |
| Total Fund Balances | 1,304,076 | 8,609,585 | 31,802,957 | 41,716,618 | 705,051 | 8,083,274 | 32,189,315 | 40,977,640 |
| Total Liabilities and Fund Balances | \$ 3,414,346 | \$ 8,626,464 | \$ 31,802,957 | \$ 43,843,767 | \$ 2,614,391 | \$ 7,956,637 | \$ 32,189,315 | \$ 42,760,343 |

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, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|---|---------------------|---------------------|---------------------------|----------------------|-------------------|---------------------|---------------------------|----------------------|
| | Operating Fund | Reserve Fund | Property & Equipment Fund | Total | Operating Fund | Reserve Fund | Property & Equipment Fund | Total |
| Revenue: | | | | | | | | |
| Members' assessments | \$ 4,881,462 | \$ 940,464 | \$ -0- | \$ 5,821,926 | \$ 4,788,162 | \$ 884,484 | \$ -0- | \$ 5,672,646 |
| Special use fees | 219,000 | -0- | -0- | 219,000 | -0- | -0- | -0- | -0- |
| Golf course operations, less cost of sales of \$167,388 in 2018 and \$117,275 in 2017 | 2,352,037 | -0- | -0- | 2,352,037 | 2,011,610 | -0- | -0- | 2,011,610 |
| Food and beverage, less cost of sales of \$1,227,548 in 2018 and \$872,859 in 2017 | 2,415,025 | -0- | -0- | 2,415,025 | 1,804,970 | -0- | -0- | 1,804,970 |
| Resident and newsletter activities | 672,355 | -0- | -0- | 672,355 | 550,751 | -0- | -0- | 550,751 |
| Fitness center, less cost of sales of \$69,819 in 2018 and \$50,084 in 2017 | 99,683 | -0- | -0- | 99,683 | 81,686 | -0- | -0- | 81,686 |
| Investment revenue | 11,691 | 179,633 | -0- | 191,324 | 9,366 | 178,254 | -0- | 187,620 |
| Other revenue | 183,100 | -0- | -0- | 183,100 | 213,068 | -0- | -0- | 213,068 |
| Total Revenue | 10,834,353 | 1,120,097 | -0- | 11,954,450 | 9,459,613 | 1,062,738 | -0- | 10,522,351 |
| Expenses: | | | | | | | | |
| Administration | 1,910,731 | -0- | -0- | 1,910,731 | 1,846,722 | -0- | -0- | 1,846,722 |
| Golf course operations | 2,547,705 | -0- | -0- | 2,547,705 | 2,442,186 | -0- | -0- | 2,442,186 |
| Food and beverage | 2,180,297 | -0- | -0- | 2,180,297 | 1,851,210 | -0- | -0- | 1,851,210 |
| Resident and newsletter activities | 880,888 | -0- | -0- | 880,888 | 755,594 | -0- | -0- | 755,594 |
| Fitness center | 354,069 | -0- | -0- | 354,069 | 348,968 | -0- | -0- | 348,968 |
| Facilities maintenance | 1,555,116 | -0- | -0- | 1,555,116 | 1,571,548 | -0- | -0- | 1,571,548 |
| Repair and maintenance (Note 8) | -0- | 198,058 | -0- | 198,058 | -0- | 105,789 | -0- | 105,789 |
| Landscaping | 636,094 | -0- | -0- | 636,094 | 581,854 | -0- | -0- | 581,854 |
| Provision for income taxes (Note 7) | 4,506 | 5,713 | -0- | 10,219 | 13,171 | 14,813 | -0- | 27,984 |
| Loss on disposal of fixed assets | -0- | -0- | 60,960 | 60,960 | -0- | -0- | 40,905 | 40,905 |
| Depreciation | -0- | -0- | 959,202 | 959,202 | -0- | -0- | 1,012,598 | 1,012,598 |
| Total Expenses | 10,069,406 | 203,771 | 1,020,162 | 11,293,339 | 9,411,253 | 120,602 | 1,053,503 | 10,585,358 |
| Revenue Over (Under) Expenses | 764,947 | 916,326 | (1,020,162) | 661,111 | 48,360 | 942,136 | (1,053,503) | (63,007) |
| Capital Expenditures Transfer (Note 8) | (165,922) | (467,882) | 633,804 | -0- | (1,171,798) | (443,619) | 1,615,417 | -0- |
| Fund Balance - Beginning of Year | 705,051 | 8,039,697 | 32,189,315 | 40,934,063 | 1,903,489 | 7,466,180 | 31,627,401 | 40,997,070 |
| Equity Transfer | -0- | -0- | -0- | -0- | (75,000) | 75,000 | -0- | -0- |
| Fund Balance - End of Year | \$ 1,304,076 | \$ 8,488,141 | \$ 31,802,957 | \$ 41,595,174 | \$ 705,051 | \$ 8,039,697 | \$ 32,189,315 | \$ 40,934,063 |

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, 2018 and 2017

| | |
|---|--------------------------|
| Balance - June 30, 2016 | <u>\$ 1,149</u> |
| Comprehensive income: | |
| Change in unrealized gain on investments, net of \$4,226 income tax effect | <u>42,428</u> |
| Total comprehensive income | <u>42,428</u> |
| Balance - June 30, 2017 | <u>43,577</u> |
| Comprehensive income: | |
| Change in unrealized gain on investments, net of \$7,551 income tax effect | <u>77,867</u> |
| Total comprehensive income | <u>77,867</u> |
| Balance - June 30, 2018 | <u><u>\$ 121,444</u></u> |

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

| | 2018 | | | | 2017 | | | |
|--|----------------|--------------|---------------------------|--------------|----------------|--------------|---------------------------|--------------|
| | 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 | \$ 764,947 | \$ 916,326 | \$ (1,020,162) | \$ 661,111 | \$ 48,360 | \$ 942,136 | \$ (1,053,503) | \$ (63,007) |
| Other Comprehensive Income - Unrealized Gain - net | -0- | 77,867 | -0- | 77,867 | -0- | 43,577 | -0- | 43,577 |
| Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities: | | | | | | | | |
| Depreciation | -0- | -0- | 959,202 | 959,202 | -0- | -0- | 1,012,598 | 1,012,598 |
| Bad debt provision (recovery) | (5,347) | -0- | -0- | (5,347) | 5,000 | -0- | -0- | 5,000 |
| Equity transfer | -0- | -0- | -0- | -0- | (75,000) | 75,000 | -0- | -0- |
| Proceeds from property sale, conversion of (gain)/loss | (39,646) | -0- | 60,960 | 21,314 | (47,636) | -0- | 40,905 | (6,731) |
| Change in unrealized gain on investments | -0- | (85,419) | -0- | (85,419) | -0- | (46,654) | -0- | (46,654) |
| (Increase) Decrease in assets: | | | | | | | | |
| Accounts receivable | (22,969) | -0- | -0- | (22,969) | (2,863) | -0- | -0- | (2,863) |
| Interest and other receivables | (1,530) | (2,983) | -0- | (4,513) | 2,284 | 371 | -0- | 2,655 |
| Inventory | 11,157 | -0- | -0- | 11,157 | (46,595) | -0- | -0- | (46,595) |
| Prepaid expenses | (144,799) | 611 | -0- | (144,188) | (21,594) | (1,034) | -0- | (22,628) |
| Increase (Decrease) in liabilities: | | | | | | | | |
| Accounts payable | 121,522 | -0- | -0- | 121,522 | 71,949 | -0- | -0- | 71,949 |
| Accrued expenses | 106,501 | -0- | -0- | 106,501 | (122,246) | -0- | -0- | (122,246) |
| Due to/from other funds | (135,965) | 135,965 | -0- | -0- | 192,253 | (192,253) | -0- | -0- |
| Gift certificates and other deposits | 5,868 | -0- | -0- | 5,868 | (15,030) | -0- | -0- | (15,030) |
| Deferred revenues | 103,104 | -0- | -0- | 103,104 | 69,372 | -0- | -0- | 69,372 |
| Deferred taxes | -0- | 7,551 | -0- | 7,551 | -0- | 4,226 | -0- | 4,226 |
| Net Cash Provided by Operating Activities | 762,743 | 1,049,918 | -0- | 1,812,661 | 58,254 | 825,369 | -0- | 883,623 |
| Cash Flows from Investing Activities: | | | | | | | | |
| Purchase of investments | (498,965) | (1,092,334) | -0- | (1,591,299) | (4,462) | (2,662,942) | -0- | (2,667,404) |
| Maturity of investments | 351,926 | 630,888 | -0- | 982,814 | 799,997 | 2,131,769 | -0- | 2,931,766 |
| Proceeds from sale of property and equipment | 39,646 | -0- | -0- | 39,646 | 47,636 | -0- | -0- | 47,636 |
| Acquisition of property and equipment | (165,922) | (467,882) | -0- | (633,804) | (1,171,798) | (443,619) | -0- | (1,615,417) |
| Net Cash Used by Investing Activities | (273,315) | (929,328) | -0- | (1,202,643) | (328,626) | (974,792) | -0- | (1,303,419) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 489,428 | 120,590 | -0- | 610,018 | (270,373) | (149,423) | -0- | (419,796) |
| Cash and Cash Equivalents, Beginning of Year | 1,541,594 | 243,863 | -0- | 1,785,457 | 1,811,967 | 393,286 | -0- | 2,205,253 |
| Cash and Cash Equivalents, End of Year | \$ 2,031,022 | \$ 364,453 | \$ -0- | \$ 2,395,475 | \$ 1,541,594 | \$ 243,863 | \$ -0- | \$ 1,785,457 |
| Analysis of Cash and Cash Equivalents: | | | | | | | | |
| Cash and cash equivalents, unrestricted | \$ 1,847,712 | \$ -0- | \$ -0- | \$ 1,847,712 | \$ 1,434,392 | \$ -0- | \$ -0- | \$ 1,434,392 |
| Cash and cash equivalents, designated and restricted | 183,310 | 364,453 | -0- | 547,763 | 107,202 | 243,863 | -0- | 351,065 |
| | \$ 2,031,022 | \$ 364,453 | \$ -0- | \$ 2,395,475 | \$ 1,541,594 | \$ 243,863 | \$ -0- | \$ 1,785,457 |
| Supplemental Disclosure: | | | | | | | | |
| Income taxes paid | \$ 9,000 | \$ -0- | \$ -0- | \$ 9,000 | \$ 30,000 | \$ -0- | \$ -0- | \$ 30,000 |

The accompanying notes are an integral part of these statements.

-6-

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017

- 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 \$2,000 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

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017, advertising costs totaled approximately \$69,000 and \$74,000, 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.
- M. Certain changes were made to the 2017 financial statements to conform to the classifications used in 2018. The reclassifications had no effect on the financial position or results of operations of the Association for 2017.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018 and 2017 are primarily from members whose residence is within the Association.

The Association maintains demand accounts at various banks. At June 30, 2018 and 2017, the aggregate balance of these accounts exceeded the federally insured limits by \$1,664,540 and \$1,260,700, 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

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

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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, 2018 and 2017, based on the three-tier fair value hierarchy:

| | 2018 | | | |
|-----------------------------|---------------------|------------------|---------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents | \$ 2,395,475 | \$ -0- | \$ -0- | \$ 2,395,475 |
| Investments: | | | | |
| Mutual Funds | 941,089 | -0- | -0- | 941,089 |
| Other Assets: | | | | |
| Accrued interest receivable | -0- | 42,720 | -0- | 42,720 |
| Total | <u>\$ 3,336,564</u> | <u>\$ 42,720</u> | <u>\$ -0-</u> | <u>\$ 3,379,284</u> |

| | 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 | <u>\$ 2,430,512</u> | <u>\$ 38,204</u> | <u>\$ -0-</u> | <u>\$ 2,468,716</u> |

5. Investments

Association investments consist of certificates of deposit, municipal securities, governmental securities and equity mutual funds, and amounted to \$8,801,238 and \$8,257,002 at June 30, 2018 and 2017, 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.

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June 30, 2018 and 2017

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, 2018 and 2017 are as follows:

| | 2018 | | | |
|--------------------------|------------------------|------------------------|-------------------------|--------------|
| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale: | | | | |
| Mutual funds | \$ 806,720 | \$ 134,369 | \$ -0- | \$ 941,089 |
| Total available for sale | \$ 806,720 | \$ 134,369 | \$ -0- | \$ 941,089 |
| Held to maturity: | | | | |
| Certificates of Deposit | \$ 4,418,518 | \$ 19,895 | \$ (130,795) | \$ 4,307,618 |
| Municipal Securities | 1,188,507 | 7,312 | (52,539) | 1,143,280 |
| US Treasury Securities | 2,402,788 | 68 | (96,002) | 2,306,854 |
| Total held to maturity | \$ 8,009,813 | \$ 27,275 | \$ (279,336) | \$ 7,757,752 |

| | 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 |

The maturities of the held to maturity securities and their approximate fair value at June 30, 2018 and 2017 are as follows:

| | 2018 | | 2017 | |
|--------------------------|----------------|--------------|----------------|--------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | \$ 1,013,703 | \$ 1,026,062 | \$ 838,473 | \$ 844,732 |
| Due in one to five years | 2,761,431 | 2,708,693 | 2,868,395 | 2,879,009 |
| Due in six to ten years | 4,120,816 | 3,920,393 | 3,687,576 | 3,607,663 |
| Due in 10 or more years | 113,862 | 102,604 | 217,503 | 207,743 |
| | \$ 8,009,812 | \$ 7,757,752 | \$ 7,611,947 | \$ 7,539,147 |

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

At June 30, 2018, the net unrealized holding gain, net of deferred income taxes, included as a separate component of replacement fund equity is \$121,444. 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. 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, 2018 and 2017, the Association sold \$96,062 and \$544,107 in available for sale securities and realized \$3,174 and \$2,301 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 2018, no held to maturity investments were called.

6. Property and Equipment

A summary of Association property and equipment at June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|-------------------------------|----------------------|----------------------|
| Land | \$ 6,468,059 | \$ 6,468,059 |
| Land improvements | 16,281,783 | 16,242,340 |
| Buildings | 13,878,271 | 13,886,528 |
| Furniture and equipment | 8,189,872 | 8,559,510 |
| Vehicles | 151,227 | 151,227 |
| | <u>44,969,212</u> | <u>45,307,664</u> |
| Less accumulated depreciation | (13,260,340) | (13,239,260) |
| Construction in progress | 17,852 | 44,678 |
| | <u>\$ 31,726,724</u> | <u>\$ 32,113,082</u> |

7. Income Taxes

The provision (benefit) for income taxes for the years ended June 30, 2018 and 2017 is as follows:

| | 2018 | 2017 |
|---------|------------------|------------------|
| State | \$ 10,219 | \$ 27,984 |
| Federal | -0- | -0- |
| | <u>\$ 10,219</u> | <u>\$ 27,984</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, 2018 and 2017

8. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2018 and 2017 are as follows:

| | <u>2018</u> | <u>2017</u> |
|-------------------------------------|-------------------|-------------------|
| Repairs and maintenance: | | |
| Lodge refurbishment | \$ -0- | \$ 4,918 |
| Exterior painting | 44,863 | -0- |
| Restaurant wood stain | -0- | 4,711 |
| Roof work | 9,940 | 10,745 |
| Sports courts | 14,205 | 59,378 |
| Pool & pool deck resurfacing | 122,963 | -0- |
| Kitchen sewer lines | -0- | 26,037 |
| Other | 6,087 | -0- |
| | <u>\$ 198,058</u> | <u>\$ 105,789</u> |
| | <u>2018</u> | <u>2017</u> |
| Property and equipment replacement: | | |
| Equipment | \$ 431,262 | \$ 401,724 |
| Restaurant carpet | -0- | 19,914 |
| Furniture and fixtures | 3,791 | 21,981 |
| Land improvements | 32,829 | -0- |
| | <u>\$ 467,882</u> | <u>\$ 443,619</u> |

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, 2018 and 2017, 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, 2018 and 2017, employer matching contributions are \$127,002 and \$129,038 respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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 \$103,041 and \$77,648 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018, future minimum lease payments under such leases are as follows:

| <u>Year Ending June 30</u> | |
|----------------------------|-------------------|
| 2019 | \$ 110,982 |
| 2020 | 110,982 |
| 2021 | 97,857 |
| 2022 | 84,732 |
| 2023 | 19,106 |
| | <u>\$ 423,658</u> |

11. Member Assessments 2018/2019

The Association's Board of Directors has approved a regular assessment of \$1,920 per lot (\$160 per month) for the year ending June 30, 2019. Total member's assessments are \$5,971,200, of which \$1,089,744 will be allocated to the reserve fund.

12. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2018 and 2017 are as follows:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|---------------------|-------------------|
| Common area improvement savings | \$ 332,974 | \$ 107,202 |
| Operating emergency account | 400,023 | 405,789 |
| Operating surplus (deficit) | 571,080 | 192,060 |
| | <u>\$ 1,304,077</u> | <u>\$ 705,051</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.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

14. Subsequent Events

Subsequent events have been evaluated by management through September 13, 2018, the date that the statements were available for issuance.

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

June 30, 2018

(Unaudited)

(See Independent Auditors' Report)

The Association' updated a study in 2018 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, 2018 is \$8,609,585. The 2018-2019 budget includes \$1,089,744 of assessments allocated to the reserve fund, plus \$249,045 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 | 0-29 | 5-35 | \$ 5,689,794 |
| Golf course | 0-6 | 6-24 | 211,457 |
| Golf course irrigation | 2-20 | 11-30 | 3,772,376 |
| Fences and walls | 6-20 | 16-30 | 220,627 |
| Floor coverings | 2-18 | 6-31 | 555,900 |
| Furniture & fixtures | 0-19 | 1-33 | 1,027,774 |
| Landscape | 2-5 | 12-15 | 164,708 |
| Lighting | 4-22 | 20-31 | 261,888 |
| Painting | 1-8 | 5-11 | 164,342 |
| Paving | 0-17 | 3-26 | 642,247 |
| Pool | 1-9 | 7-13 | 216,717 |
| Roofing | 2-17 | 20-40 | 372,463 |
| Sport courts | 1-7 | 4-15 | 140,666 |
| Wall coverings | 5,28 | 20-31 | 138,461 |
| Window Coverings | 2-8 | 6-12 | 51,739 |
| Miscellaneous | 1-18 | 4-35 | 1,865,427 |
| | | | \$ 15,496,586 |