

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

Roseville, CA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 18, 2019

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
June 30, 2019 and 2018

	2019				2018			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
ASSETS								
Cash and cash equivalents	\$ 1,599,956	\$ 446,439	\$ -0-	\$ 2,046,395	\$ 1,847,712	\$ 364,453	\$ -0-	\$ 2,212,165
Cash and cash equivalents - common area improvement	91,073	-0-	-0-	91,073	183,310	-0-	-0-	183,310
Accounts receivable	38,990	-0-	-0-	38,990	57,983	-0-	-0-	57,983
Interest and other receivables	6,891	40,668	-0-	47,559	4,570	38,148	-0-	42,718
Inventory	199,583	-0-	-0-	199,583	198,355	-0-	-0-	198,355
Prepaid expenses	273,709	-0-	-0-	273,709	394,622	655	-0-	395,277
Investments, amortized cost (Note 5)	575,490	8,044,851	-0-	8,620,341	578,030	7,282,119	-0-	7,860,149
Investments, fair value (Notes 4 and 5)	-0-	981,061	-0-	981,061	-0-	941,089	-0-	941,089
Investments - common area improvement, amortized cost (Note 5)	907,972	-0-	-0-	907,972	149,664	-0-	-0-	149,664
Other assets	-0-	-0-	76,233	76,233	100	-0-	76,233	76,333
Property and equipment, net (Note 6)	-0-	-0-	31,325,980	31,325,980	-0-	-0-	31,726,724	31,726,724
Total Assets	\$ 3,693,664	\$ 9,513,019	\$ 31,402,213	\$ 44,608,896	\$ 3,414,346	\$ 8,626,464	\$ 31,802,957	\$ 43,843,767
LIABILITIES AND FUND BALANCES								
Accounts payable	\$ 291,690	\$ -0-	\$ -0-	\$ 291,690	\$ 302,082	\$ -0-	\$ -0-	\$ 302,082
Accrued expenses	484,313	10,535	-0-	494,848	477,380	-0-	-0-	477,380
Deferred tax liability	-0-	4,226	-0-	4,226	-0-	11,777	-0-	11,777
Due to (from) other funds	(73,539)	73,539	-0-	-0-	(5,102)	5,102	-0-	-0-
Gift certificates and other deposits	210,288	-0-	-0-	210,288	207,250	-0-	-0-	207,250
Deferred revenue	892,133	-0-	-0-	892,133	1,128,660	-0-	-0-	1,128,660
Total Liabilities	1,804,885	88,300	-0-	1,893,185	2,110,270	16,879	-0-	2,127,149
Fund Balances								
Operating (Note 12)	1,888,779	-0-	-0-	1,888,779	1,304,076	-0-	-0-	1,304,076
Reserve	-0-	9,381,144	-0-	9,381,144	-0-	8,488,141	-0-	8,488,141
Accumulated other comprehensive income	-0-	43,575	-0-	43,575	-0-	121,444	-0-	121,444
Property & equipment	-0-	-0-	31,402,213	31,402,213	-0-	-0-	31,802,957	31,802,957
Total Fund Balances	1,888,779	9,424,719	31,402,213	42,715,711	1,304,076	8,609,585	31,802,957	41,716,618
Total Liabilities and Fund Balances	\$ 3,693,664	\$ 9,513,019	\$ 31,402,213	\$ 44,608,896	\$ 3,414,346	\$ 8,626,464	\$ 31,802,957	\$ 43,843,767

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, 2019 and 2018

	2019				2018			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Revenue:								
Members' assessments	\$ 4,881,462	\$ 1,089,744	\$ -0-	\$ 5,971,206	\$ 4,881,462	\$ 940,464	\$ -0-	\$ 5,821,926
Special use fees	289,500	-0-	-0-	289,500	219,000	-0-	-0-	219,000
Golf course operations, less cost of sales of \$159,221 in 2019 and \$167,388 in 2018	2,405,751	-0-	-0-	2,405,751	2,352,037	-0-	-0-	2,352,037
Food and beverage, less cost of sales of \$1,366,010 in 2019 and \$1,227,548 in 2018	2,656,834	-0-	-0-	2,656,834	2,415,025	-0-	-0-	2,415,025
Resident and newsletter activities, less cost of sales of \$488,471 in 2019 and \$451,926 in 2018	236,668	-0-	-0-	236,668	220,430	-0-	-0-	220,430
Fitness center, less cost of sales of \$78,748 in 2019 and \$69,819 in 2018	115,041	-0-	-0-	115,041	99,683	-0-	-0-	99,683
Investment revenue	29,782	323,352	-0-	353,134	11,691	179,633	-0-	191,324
Other revenue	156,828	-0-	-0-	156,828	183,100	-0-	-0-	183,100
Total Revenue	10,771,866	1,413,096	-0-	12,184,962	10,382,427	1,120,097	-0-	11,502,525
Expenses:								
Administration	1,961,721	-0-	-0-	1,961,721	1,910,731	-0-	-0-	1,910,731
Golf course operations	2,603,644	-0-	-0-	2,603,644	2,547,705	-0-	-0-	2,547,705
Food and beverage	2,406,507	-0-	-0-	2,406,507	2,180,297	-0-	-0-	2,180,297
Resident and newsletter activities	443,238	-0-	-0-	443,238	428,962	-0-	-0-	428,962
Fitness center	381,004	-0-	-0-	381,004	354,069	-0-	-0-	354,069
Facilities maintenance	1,594,396	-0-	-0-	1,594,396	1,555,116	-0-	-0-	1,555,116
Repair and maintenance (Note 8)	-0-	36,495	-0-	36,495	-0-	198,058	-0-	198,058
Landscaping	653,360	-0-	-0-	653,360	636,094	-0-	-0-	636,094
Provision for income taxes (Note 7)	13,249	28,621	-0-	41,870	4,506	5,713	-0-	10,219
Loss on disposal of fixed assets	-0-	-0-	30,791	30,791	-0-	-0-	60,960	60,960
Depreciation	-0-	-0-	954,974	954,974	-0-	-0-	959,202	959,202
Total Expenses	10,057,119	65,116	985,765	11,108,000	9,617,481	203,771	1,020,162	10,841,414
Revenue Over (Under) Expenses	714,747	1,347,980	(985,765)	1,076,962	764,947	916,326	(1,020,162)	661,111
Capital Expenditures Transfer (Note 8)	(130,044)	(454,977)	585,021	-0-	(165,922)	(467,882)	633,804	-0-
Fund Balance - Beginning 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
Fund Balance - End of Year	\$ 1,888,779	\$ 9,381,144	\$ 31,402,213	\$ 42,672,136	\$ 1,304,076	\$ 8,488,141	\$ 31,802,957	\$ 41,595,174

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, 2019 and 2018

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>121,444</u>
Comprehensive income:	
Change in unrealized gain on investments, net of \$7,551 income tax effect	<u>(77,869)</u>
Total comprehensive income	<u>(77,869)</u>
Balance - June 30, 2019	<u><u>\$ 43,575</u></u>

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2019 and 2018

	2019				2018			
	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	\$ 714,747	\$ 1,347,980	\$ (985,765)	\$ 1,076,962	\$ 764,947	\$ 916,326	\$ (1,020,162)	\$ 661,111
Other Comprehensive Income - Unrealized Gain - net	-0-	(77,869)	-0-	(77,869)	-0-	77,867	-0-	77,867
Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:								
Depreciation	-0-	-0-	954,974	954,974	-0-	-0-	959,202	959,202
Bad debt provision (recovery)	5,320	-0-	-0-	5,320	(5,347)	-0-	-0-	(5,347)
Proceeds from property sale, conversion of (gain)/loss	(12,294)	-0-	30,791	18,497	(39,646)	-0-	60,960	21,314
Change in unrealized gain on investments	-0-	85,420	-0-	85,420	-0-	(85,419)	-0-	(85,419)
(Increase) Decrease in assets:								
Accounts receivable	13,672	-0-	-0-	13,672	(22,969)	-0-	-0-	(22,969)
Interest and other receivables	(2,321)	(2,520)	-0-	(4,841)	(1,530)	(2,983)	-0-	(4,513)
Inventory	(1,228)	-0-	-0-	(1,228)	11,157	-0-	-0-	11,157
Prepaid expenses	120,913	655	-0-	121,568	(144,799)	611	-0-	(144,188)
Other assets	100	-0-	-0-	100	(100)	-0-	-0-	(100)
Increase (Decrease) in liabilities:								
Accounts payable	(10,391)	-0-	-0-	(10,391)	121,522	-0-	-0-	121,522
Accrued expenses	6,933	10,535	-0-	17,468	106,501	-0-	-0-	106,501
Due to/from other funds	(68,437)	68,437	-0-	-0-	(135,965)	135,965	-0-	-0-
Gift certificates and other deposits	3,039	-0-	-0-	3,039	5,868	-0-	-0-	5,868
Deferred revenues	(236,528)	-0-	-0-	(236,528)	103,104	-0-	-0-	103,104
Deferred taxes	-0-	(7,551)	-0-	(7,551)	-0-	7,551	-0-	7,551
Net Cash Provided by Operating Activities	533,525	1,425,087	-0-	1,958,612	762,743	1,049,918	-0-	1,812,661
Cash Flows from Investing Activities:								
Purchase of investments	(1,991,916)	(2,899,414)	-0-	(4,891,330)	(498,965)	(1,092,334)	-0-	(1,591,299)
Maturity of investments	1,236,148	2,011,290	-0-	3,247,438	351,926	630,888	-0-	982,814
Proceeds from sale of property and equipment	12,294	-0-	-0-	12,294	39,646	-0-	-0-	39,646
Acquisition of property and equipment	(130,044)	(454,977)	-0-	(585,021)	(165,922)	(467,882)	-0-	(633,804)
Net Cash Used by Investing Activities	(873,518)	(1,343,101)	-0-	(2,216,619)	(273,315)	(929,328)	-0-	(1,202,643)
Net Increase (Decrease) in Cash and Cash Equivalents	(339,993)	81,986	-0-	(258,007)	489,428	120,590	-0-	610,018
Cash and Cash Equivalents, Beginning of Year	2,031,022	364,453	-0-	2,395,475	1,541,594	243,863	-0-	1,785,457
Cash and Cash Equivalents, End of Year	\$ 1,691,029	\$ 446,439	\$ -0-	\$ 2,137,468	\$ 2,031,022	\$ 364,453	\$ -0-	\$ 2,395,475
Analysis of Cash and Cash Equivalents:								
Cash and cash equivalents, unrestricted	\$ 1,599,956	\$ -0-	\$ -0-	\$ 1,599,956	\$ 1,847,712	\$ -0-	\$ -0-	\$ 1,847,712
Cash and cash equivalents, designated and restricted	91,073	446,439	-0-	537,512	183,310	364,453	-0-	547,763
	\$ 1,691,029	446,439	\$ -0-	\$ 2,137,468	\$ 2,031,022	\$ 364,453	\$ -0-	\$ 2,395,475
Supplemental Disclosure:								
Income taxes paid	\$ 25,289	\$ -0-	\$ -0-	\$ 25,289	\$ 9,000	\$ -0-	\$ -0-	\$ 9,000

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

- 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 account's

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 years ended June 30, 2019 and 2018, advertising costs totaled approximately \$38,000 and \$69,000, 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 2018 financial statements to conform to the classifications used in 2019. The reclassifications had no effect on the financial position or results of operations of the Association for 2018.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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, 2019 and 2018 are primarily from members whose residence is within the Association.

The Association maintains demand accounts at various banks. At June 30, 2019 and 2018, the aggregate balance of these accounts exceeded the federally insured limits by \$1,393,901 and \$1,664,540, 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, 2019 and 2018, based on the three-tier fair value hierarchy:

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,156,290	\$ -0-	\$ -0-	\$ 2,156,290
Investments:				
Mutual Funds	981,061	-0-	-0-	981,061
Other Assets:				
Accrued interest receivable	-0-	47,559	-0-	47,559
Total	\$ 3,137,351	\$ 47,559	\$ -0-	\$ 3,184,910

	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	\$ 3,336,564	\$ 42,720	\$ -0-	\$ 3,379,284

5. Investments

Association investments consist of certificates of deposit, municipal securities, governmental securities and equity mutual funds, and amounted to \$10,509,373 and \$8,950,902 at June 30, 2019 and 2018, 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 THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 are as follows:

	2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale:				
Mutual funds	\$ 932,112	\$ 48,949	\$ -0-	\$ 981,061
Total available for sale	\$ 932,112	\$ 48,949	\$ -0-	\$ 981,061
Held to maturity:				
Certificates of Deposit	\$ 4,718,819	\$ 17,697	\$ (41,756)	\$ 4,694,760
Municipal Securities	1,189,621	20,374	(25,968)	1,184,027
US Treasury Securities	3,619,873	20,192	(14,062)	3,626,003
Total held to maturity	\$ 9,528,313	\$ 58,263	\$ (81,786)	\$ 9,504,790

	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

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

	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,539,522	\$ 2,547,949	\$ 1,013,703	\$ 1,026,062
Due in one to five years	3,455,748	3,444,264	2,761,431	2,708,693
Due in six to ten years	3,533,043	3,512,577	4,120,816	3,920,393
Due in 10 or more years	-0-	-0-	113,862	102,604
	\$ 9,528,313	\$ 9,504,790	\$ 8,009,812	\$ 7,757,752

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

At June 30, 2019, the net unrealized holding gain, net of deferred income taxes, included as a separate component of replacement fund equity is \$43,575. 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. 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, 2019 and 2018, the Association sold \$1,285,150 and \$96,062 in available for sale securities and realized \$125,517 and \$3,174 in net gains, respectively.

6. Property and Equipment

A summary of Association property and equipment at June 30, 2019 and 2018 is as follows:

	2019	2018
Land	\$ 6,472,055	\$ 6,468,059
Land improvements	16,323,685	16,281,783
Buildings	13,894,163	13,878,271
Furniture and equipment	8,528,730	8,189,872
Vehicles	208,951	151,227
	45,427,584	44,969,212
Less accumulated depreciation	(14,165,323)	(13,260,340)
Construction in progress	63,716	17,852
	\$ 31,325,980	\$ 31,726,724

7. Income Taxes

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

	2019	2018
State	\$ 41,870	\$ 10,219
Federal	-0-	-0-
	\$ 41,870	\$ 10,219

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 THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

8. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Repairs and maintenance:		
Lodge refurbishment	\$ 2,655	\$ -0-
Fencing	25,061	-0-
Pool & pool deck resurfacing	5,621	122,963
Equipment repairs	3,158	-0-
Exterior painting	-0-	44,863
Roof work	-0-	9,940
Sports courts	-0-	14,205
Other	-0-	6,087
	\$ 36,495	\$ 198,058
	2019	2018
Property and equipment replacement:		
Furniture and equipment	\$ 346,583	\$ 435,053
Vehicles	57,724	-0-
Building	9,720	-0-
Land improvements	40,950	32,829
	\$ 454,977	\$ 467,882

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, 2019 and 2018, 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, 2019 and 2018, employer matching contributions are \$135,137 and \$127,002 respectively.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

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 \$124,408 and \$103,041 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, future minimum lease payments under such leases are as follows:

<u>Year Ending June 30</u>	
2020	\$ 110,982
2021	97,857
2022	84,732
2023	19,106
	<u>\$ 312,677</u>

11. Member Assessments 2019/2020

The Association's Board of Directors has approved a regular assessment of \$1,992 per lot (\$166 per month) for the year ending June 30, 2020. Total member's assessments are \$6,195,120, of which \$1,164,384 will be allocated to the reserve fund.

12. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Common area improvement savings	\$ 999,045	\$ 332,974
Operating emergency account	406,643	400,023
Operating surplus (deficit)	483,091	571,080
	<u>\$ 1,883,779</u>	<u>\$ 1,304,077</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 THE FINANCIAL STATEMENTS

June 30, 2019 and 2018

14. Subsequent Events

Subsequent events have been evaluated by management through September 18, 2019, the date that the statements were available for issuance.

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

June 30, 2019

(Unaudited)

(See Independent Auditors' Report)

The Association' updated a study in 2019 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 2.25% 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, 2019 is \$9,424,719. The 2019-2020 budget includes \$1,164,384 of assessments allocated to the reserve fund, plus \$225,939 of investment earnings.

The Association's policy is to fund for the assets included in the reserve, including inflation at 2.25% 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	0-28	5-40	\$ 5,890,995
Golf course	1-5	5-26	220,865
Golf course irrigation	1-19	11-30	3,862,262
Fences and walls	5-29	16-40	230,350
Floor coverings	2-17	6-31	573,066
Furniture & fixtures	0-18	4-31	1,092,749
Landscape	1-4	12-15	168,660
Lighting	6-21	20-31	268,060
Painting	1-8	5-12	173,020
Paving	3-16	4-27	630,360
Pool	0-8	6-14	214,960
Roofing	1-16	20-40	381,538
Sport courts	0-9	3-15	143,262
Wall coverings	4-27	20-31	142,682
Window Coverings	2-7	6-12	53,568
Miscellaneous	0-17	5-36	1,808,613
			<u>\$ 15,855,010</u>