

SUN CITY ROSEVILLE
COMMUNITY ASSOCIATION, INC.

Roseville, CA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2021 and 2020

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, 2021 and 2020, and the related statements of revenue and expenses and changes in fund balances, 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, 2021 and 2020, 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.

Change in Accounting Principles

As described in Note 5, on July 1, 2020, the Association adopted on a prospective basis FASB Accounting Standards Update No. 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" which requires accounting for certain equity investments under the fair value option with changes in fair value recognized in net income. The Company recognized a cumulative effect adjustment of \$75,834 to Retained Earnings on June 1, 2020 due to the adoption of these new accounting standards.

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 19 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 16, 2021

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
June 30, 2021 and 2020

	2021				2020			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
ASSETS								
Cash and cash equivalents	\$ 3,045,439	\$ 530,543	\$ -0-	\$ 3,575,982	\$ 1,890,330	\$ 776,074	\$ -0-	\$ 2,666,404
Cash and cash equivalents - common area improvement	649,428	-0-	-0-	649,428	375,217	-0-	-0-	375,217
Accounts receivable	67,499	-0-	-0-	67,499	36,041	-0-	-0-	36,041
Interest and other receivables	27,709	44,266	-0-	71,975	5,704	40,966	-0-	46,670
Inventory	164,390	-0-	-0-	164,390	190,569	-0-	-0-	190,569
Prepaid expenses	241,913	8,615	-0-	250,528	224,180	-0-	-0-	224,180
Debt securities held-to-maturity (Note 7)	400,088	9,651,585	-0-	10,051,673	244,951	8,442,906	-0-	8,687,857
Equity investments with readily determinable fair value (Note 7)	-0-	1,281,799	-0-	1,281,799	-0-	995,297	-0-	995,297
Debt securities held-to-maturity - common area improvement (Note 7)	1,660,555	-0-	-0-	1,660,555	1,067,522	-0-	-0-	1,067,522
Other assets	-0-	-0-	76,233	76,233	-0-	-0-	76,233	76,233
Property and equipment, net (Note 8)	-0-	-0-	30,915,836	30,915,836	-0-	-0-	31,260,510	31,260,510
Total Assets	\$ 6,257,021	\$ 11,516,808	\$ 30,992,069	\$ 48,765,898	\$ 4,034,514	\$ 10,255,243	\$ 31,336,743	\$ 45,626,500
LIABILITIES AND FUND BALANCES								
Accounts payable	\$ 262,889	\$ -0-	\$ -0-	\$ 262,889	\$ 157,777	\$ -0-	\$ -0-	\$ 157,777
Accrued expenses	570,608	-0-	-0-	570,608	509,349	15,845	-0-	525,194
Deferred tax liability	-0-	16,415	-0-	16,415	-0-	7,354	-0-	7,354
Due to (from) other funds	(226,956)	226,956	-0-	-0-	(112,682)	112,682	-0-	-0-
Gift certificates and other deposits	184,477	-0-	-0-	184,477	192,532	-0-	-0-	192,532
Deferred revenue	1,286,944	-0-	-0-	1,286,944	1,091,234	-0-	-0-	1,091,234
Total Liabilities	2,077,962	243,371	-0-	2,321,333	1,838,210	135,881	-0-	1,974,091
Fund Balances								
Operating (Note 14)	4,179,059	-0-	-0-	4,179,059	2,196,304	-0-	-0-	2,196,304
Reserve	-0-	11,273,437	-0-	11,273,437	-0-	10,043,528	-0-	10,043,528
Accumulated other comprehensive income (Note 5)	-0-	-0-	-0-	-0-	-0-	75,834	-0-	75,834
Property & equipment	-0-	-0-	30,992,069	30,992,069	-0-	-0-	31,336,743	31,336,743
Total Fund Balances	4,179,059	11,273,437	30,992,069	46,444,565	2,196,304	10,119,362	31,336,743	43,652,409
Total Liabilities and Fund Balances	\$ 6,257,021	\$ 11,516,808	\$ 30,992,069	\$ 48,765,898	\$ 4,034,514	\$ 10,255,243	\$ 31,336,743	\$ 45,626,500

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, 2021 and 2020

	2021				2020			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Revenue:								
Members' assessments	\$ 5,217,336	\$ 1,239,024	\$ -0-	\$ 6,456,360	\$ 5,030,736	\$ 1,164,384	\$ -0-	\$ 6,195,120
Special use fees	679,000	-0-	-0-	679,000	334,000	-0-	-0-	334,000
Golf course operations, less cost of sales of \$189,310 in 2021 and \$115,831 in 2020	3,213,317	-0-	-0-	3,213,317	2,379,436	-0-	-0-	2,379,436
Food and beverage, less cost of sales of \$564,355 in 2021 and \$1,018,062 in 2020	1,012,606	-0-	-0-	1,012,606	2,092,925	-0-	-0-	2,092,925
Resident and newsletter activities, less cost of sales of \$98,063 in 2021 and \$321,126 in 2020	96,514	-0-	-0-	96,514	211,513	-0-	-0-	211,513
Fitness center, less cost of sales of \$1,782 in 2021 and \$61,396 in 2020	2,468	-0-	-0-	2,468	88,788	-0-	-0-	88,788
Interest and investment revenue	11,260	340,760	-0-	352,020	34,547	181,332	-0-	215,879
Unrealized gain (loss) on equity investments with readily determinable fair value (Note 5)	-0-	102,504	-0-	102,504	-0-	-0-	-0-	-0-
Other revenue	168,864	-0-	-0-	168,864	152,424	-0-	-0-	152,424
Total Revenue	10,401,365	1,682,288	-0-	12,083,653	10,324,369	1,345,716	-0-	11,670,085
Expenses:								
Administration	1,973,713	-0-	-0-	1,973,713	1,978,282	-0-	-0-	1,978,282
Golf course operations	2,809,504	-0-	-0-	2,809,504	2,646,938	-0-	-0-	2,646,938
Food and beverage	1,344,223	-0-	-0-	1,344,223	2,303,429	-0-	-0-	2,303,429
Resident and newsletter activities	257,069	-0-	-0-	257,069	415,197	-0-	-0-	415,197
Fitness center	172,392	-0-	-0-	172,392	341,403	-0-	-0-	341,403
Facilities maintenance	1,063,973	-0-	-0-	1,063,973	1,428,763	-0-	-0-	1,428,763
Repair and maintenance (Note 10)	-0-	-0-	-0-	-0-	-0-	56,336	-0-	56,336
Landscaping	673,501	-0-	-0-	673,501	605,962	-0-	-0-	605,962
Provision for income taxes (Notes 5 and 9)	7,205	38,570	-0-	45,775	10,759	13,923	-0-	24,682
Loss on disposal of fixed assets	-0-	-0-	5,809	5,809	-0-	-0-	20,600	20,600
Depreciation	-0-	-0-	945,538	945,538	-0-	-0-	944,054	944,054
Total Expenses	8,301,580	38,570	951,347	9,291,497	9,730,733	70,259	964,654	10,765,646
Revenue Over (Under) Expenses	2,099,785	1,643,718	(951,347)	2,792,156	593,636	1,275,457	(964,654)	904,439
Capital Expenditures Transfer (Note 8)	(117,030)	(489,643)	606,673	-0-	(186,111)	(713,073)	899,184	-0-
Fund Balance - Beginning of Year	2,196,304	10,043,528	31,336,743	43,576,575	1,888,779	9,381,144	31,402,213	42,672,136
Adoption of ASU 2016-01 (Note 5)	-0-	75,834	-0-	75,834	-0-	-0-	-0-	-0-
Equity Transfer	-0-	-0-	-0-	-0-	(100,000)	100,000	-0-	-0-
Fund Balance - End of Year	\$ 4,179,059	\$ 11,273,437	\$ 30,992,069	\$ 46,444,565	\$ 2,196,304	\$ 10,043,528	\$ 31,336,743	\$ 43,576,575

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, 2021 and 2020

Balance - June 30, 2019	\$ 43,575
Comprehensive income:	
Change in unrealized gain on investments, net of \$3,128 income tax effect	<u>32,259</u>
Total comprehensive income	<u>32,259</u>
Balance - June 30, 2020	<u>75,834</u>
Adoption of ASU 2016-01 (Note 5)	<u>(75,834)</u>
Balance - June 30, 2021	<u>\$ -0-</u>

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	2021				2020			
	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	\$ 2,099,785	\$ 1,643,718	\$ (951,347)	\$ 2,792,156	\$ 593,636	\$ 1,275,457	\$ (964,654)	\$ 904,439
Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:								
Depreciation	-0-	-0-	945,538	945,538	-0-	-0-	944,054	944,054
Amortization of investments	41,119	67,932	-0-	109,051	(9,638)	22,413	-0-	12,775
Deferred income taxes	-0-	-0-	-0-	-0-	-0-	(3,128)	-0-	(3,128)
Bad debt recovery	(2,906)	-0-	-0-	(2,906)	0	-0-	-0-	-0-
Equity transfer	-0-	-0-	-0-	-0-	(100,000)	100,000	-0-	-0-
Proceeds from property sale, conversion of (gain)/loss	(29,698)	-0-	5,809	(23,889)	(27,378)	-0-	20,600	(6,778)
Net loss (gain) on sales of equity investments	-0-	(174,638)	-0-	(174,638)	0	20,202	-0-	20,202
Fair value adjustments on equity investments	-0-	(102,504)	-0-	(102,504)	-0-	-0-	-0-	-0-
(Increase) Decrease in assets:								
Accounts receivable	(28,552)	-0-	-0-	(28,552)	2,949	-0-	-0-	2,949
Interest and other receivables	(22,005)	(3,300)	-0-	(25,305)	1,187	(298)	-0-	889
Inventory	26,179	-0-	-0-	26,179	9,015	-0-	-0-	9,015
Prepaid expenses	(17,733)	(8,615)	-0-	(26,348)	49,529	-0-	-0-	49,529
Increase (Decrease) in liabilities:								
Accounts payable	105,112	-0-	-0-	105,112	(133,913)	-0-	-0-	(133,913)
Accrued expenses	61,258	(15,845)	-0-	45,413	25,036	5,310	-0-	30,346
Due to/from other funds	(114,274)	114,274	-0-	-0-	(39,143)	39,143	-0-	-0-
Gift certificates and other deposits	(8,055)	-0-	-0-	(8,055)	(17,756)	-0-	-0-	(17,756)
Deferred revenues	195,710	-0-	-0-	195,710	199,101	-0-	-0-	199,101
Deferred taxes	-0-	9,061	-0-	9,061	-0-	3,128	-0-	3,128
Net Cash Provided by Operating Activities	2,305,940	1,530,083	-0-	3,836,023	552,625	1,462,227	-0-	2,014,852
Cash Flows from Investing Activities:								
Purchase of investments	(3,034,588)	(4,103,579)	-0-	(7,138,167)	(1,632,733)	(6,567,192)	-0-	(8,199,925)
Maturity of investments	2,245,300	2,817,608	-0-	5,062,908	1,813,359	6,147,673	-0-	7,961,032
Proceeds from sale of property and equipment	29,698	-0-	-0-	29,698	27,378	-0-	-0-	27,378
Acquisition of property and equipment	(117,030)	(489,643)	-0-	(606,673)	(186,111)	(713,073)	-0-	(899,184)
Net Cash Provided (Used) by Investing Activities	(876,620)	(1,775,614)	-0-	(2,652,234)	21,893	(1,132,592)	-0-	(1,110,699)
Net Increase (Decrease) in Cash and Cash Equivalents	1,429,320	(245,531)	-0-	1,183,789	574,518	329,635	-0-	904,153
Cash and Cash Equivalents, Beginning of Year	2,265,547	776,074	-0-	3,041,621	1,691,029	446,439	-0-	2,137,468
Cash and Cash Equivalents, End of Year	\$ 3,694,867	\$ 530,543	\$ -0-	4,225,410	\$ 2,265,547	\$ 776,074	\$ -0-	\$ 3,041,621
Analysis of Cash and Cash Equivalents:								
Cash and cash equivalents, unrestricted	\$ 3,045,439	\$ -0-	\$ -0-	3,045,439	\$ 1,890,330	\$ -0-	\$ -0-	1,890,330
Cash and cash equivalents, designated and restricted	649,428	530,543	-0-	1,179,971	375,217	776,074	-0-	1,151,291
	\$ 3,694,867	530,543	\$ -0-	4,225,410	\$ 2,265,547	\$ 776,074	\$ -0-	3,041,621
Supplemental Disclosure:								
Income taxes paid	\$ 58,500	\$ -0-	\$ -0-	58,500	\$ 12,000	\$ -0-	\$ -0-	12,000

The accompanying notes are an integral part of these statements.

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SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 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, 2021 and 2020

- 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 \$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 collectability is uncertain. Accounts are written off when the Association's

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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, 2021 and 2020, advertising costs totaled approximately \$18,000 and \$51,000, 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, 2021 and 2020

- 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. The COVID-19 outbreak in the United States has caused varying degrees of disruption across substantially all businesses. It is at least possible that the Association may experience adverse effects from the outbreak, including the inability to achieve consistent operational service levels historically available to members. As a result of the pandemic, the Association temporarily closed the public areas including restaurant, activities, fitness and pool facilities, causing a reduction in revenue and related expenses in the for the majority of fiscal 2021. Issues may arise from disruptions in normal supply chains, slower collection of member assessments, reduction in user fees, or other factors.

The Association has considered the impact of COVID-19 on the assumptions and estimates used when preparing these financial statements including the potential impairment of long-lived assets, inventory valuation and future compliance with debt covenants, noting no adjustments to be reflected in the accompanying financial statements at this time. If the economic conditions caused by COVID-19 worsen beyond what is currently estimated by management, such future changes may have an adverse impact on the Association's result of operations, financial position, and liquidity.

- O. Certain amounts in the 2020 financial statements have been reclassified to conform to the presentation in the 2021 financial statements. The reclassifications have no impact on the financial position or results of operations for 2020.

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.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

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.

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 \$918,705 and \$659,239 as of June 30, 2021 and 2020, respectively. For the year ended June 30, 2021, the Association recognized approximately \$659,000 of contract revenue that was included in the deferred revenue balance as of June 30, 2020. For the year ended June 30, 2020, the Association recognized approximately \$615,000 of contract revenue that was included in the deferred revenue balance as of June 30, 2019.

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Contract assets are recorded as trade receivables when the right to consideration is unconditional. Trade receivable balances were \$9,835 and \$11,608 as of June 30, 2021 and 2020, 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 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. 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, 2021 and 2020 are primarily from members whose residence is within the Association.

The Association maintains demand accounts at various banks. At June 30, 2021 and 2020, the aggregate balance of these accounts exceeded the federally insured limits by \$3,748,614 and \$2,546,949, respectively. The Association, through its bank, has private insurance for amounts that exceed federally insured limits.

5. Recently Adopted Accounting Standards

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01). ASU 2016-01 changes accounting for equity investments under the fair value option, and presentation and disclosure requirements for financial instruments. Equity investments with readily determinable fair values will be measured at fair value with changes in fair value recognized in net revenue over (under) expenses. ASU 2016-01 required a cumulative effect adjustment to the opening reserve fund balance for equity investments with readily determinable fair values. As of the adoption date, the Association held publicly traded equity investments with a fair value of approximately \$995,000 in a net unrealized gain position of \$83,188, and having an associated deferred tax liability of \$7,354. The cumulative effect adjustment of \$75,834 decreased accumulated other comprehensive income with a corresponding increase to reserve fund balance for the amount of unrealized gains or losses, net of tax as of the beginning of fiscal year 2021. As a result of the implementation of ASU 2016-01,

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effective on July 1, 2020 unrealized gains and losses in equity investments with readily determinable fair values are recorded on the statement of revenue and expenses and changes in fund balances. The implementation of ASU 2016-01 is expected to increase volatility in revenue over (under) expenses as the volatility previously recorded in other comprehensive income related to changes in the fair market value of available-for-sale equity investments will now be reflected in net revenue over (under) expenses effective with the adoption date.

In 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-04, Codification Improvements to Topic 825, Financial Instruments. The Association adopted the provisions of this new standard during the year ended June 30, 2021. The adoption had no impact on the balance sheets or statements of revenue and expenses and changes in fund balances, or statement of cash flows. The adoption removed the requirement to disclose fair value on held-to-maturity debt securities. As a result of the new accounting pronouncement, Note 7 to the financial statements was amended in 2021 and 2020 and no longer includes information on fair value of debt securities held-to-maturity.

6. 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.

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The Association measures its equity investments with readily determinable fair values at fair value. The Association classifies its equity investments within Level 1 because the Association values these investments using quoted market prices. The fair value of the Association's Level 1 financial assets is based on quoted market prices of the identical underlying security.

Effective July 1, 2020, the Association adopted ASU 2016-01. Among other provisions, the new standard required modifications to existing presentation and disclosure requirements on a prospective basis. Certain disclosures as of June 30, 2020 below conform to the disclosure requirements of ASU 2016-01. See Note 5 for additional information related to the adoption of ASU 2016-01.

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, 2021 and 2020, based on the three-tier fair value hierarchy:

		2021			
		Level 1	Level 2	Level 3	Total
Equity investments with readily determinable fair values		\$ 1,281,799	\$ -0-	\$ -0-	\$ 1,281,799
	Total	<u>\$ 1,281,799</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,281,799</u>

		2020			
		Level 1	Level 2	Level 3	Total
Equity investments with readily determinable fair values		\$ 995,297	\$ -0-	\$ -0-	\$ 995,297
	Total	<u>\$ 995,297</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 995,297</u>

A net unrealized gain of \$102,504 was recorded for equity investments with readily determinable fair values as of June 30, 2021.

7. Debt Securities Held-to-Maturity and Equity Investments with Readily Determinable Fair Values

Association investments consist of debt securities held-to-maturity and equity securities with readily determinable fair values at June 30, 2021 and 2020, 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 debt securities since the Association has the positive intent and ability to hold all securities until maturity. Equity investments with readily determinable fair values are recorded at fair value.

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

The amortized cost/ net carrying value of debt securities held-to-maturity a June 30, 2021 and 2020 are as follows:

	2021	2020
	Amortized Cost/Net Carrying Value	Amortized Cost/Net Carrying Value
Held to maturity:		
Certificates of Deposit	\$ 6,400,025	\$ 7,324,077
Municipal Securities	2,820,191	1,168,963
US Treasury Securities	2,492,011	1,262,339
Total held to maturity	<u>\$ 11,712,227</u>	<u>\$ 9,755,379</u>

The maturities of the debt securities held-to-maturity at June 30, 2021 and 2020 are as follows:

	2021	2020
Due in one year or less	\$ 973,220	\$ 2,554,522
Due in one to five years	5,179,011	4,408,712
Due in six to ten years	4,254,352	2,762,900
Due in 10 or more years	1,305,644	29,245
	<u>\$ 11,712,227</u>	<u>\$ 9,755,379</u>

The cost, net gross unrealized gains and losses and aggregate fair value of equity investments with readily determinable fair values at June 30 are as follows:

	2021			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity investments with readily determinable fair values	\$ 1,094,963	\$ 186,836	\$ -0-	\$ 1,281,799
Total	<u>\$ 1,094,963</u>	<u>\$ 186,836</u>	<u>\$ -0-</u>	<u>\$ 1,281,799</u>
	2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity investments with readily determinable fair values	\$ 910,965	\$ 84,333	\$ -0-	\$ 995,297
Total	<u>\$ 910,965</u>	<u>\$ 84,333</u>	<u>\$ -0-</u>	<u>\$ 995,297</u>

During the years ended June 30, 2021 and 2020, the Association sold \$981,607 and \$1,571,314 in equity investments and realized \$174,638 and (\$35,056) in net gains/(losses), respectively.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

8. Property and Equipment

A summary of Association property and equipment at June 30, 2021 and 2020 is as follows:

	2021	2020
Land	\$ 6,472,055	\$ 6,472,055
Land improvements	16,409,163	16,406,868
Buildings	13,907,652	13,897,676
Furniture and equipment	9,169,664	8,913,293
Vehicles	208,951	208,951
	46,167,485	45,898,843
Less accumulated depreciation	(15,547,838)	(14,766,110)
Construction in progress	296,190	127,777
	\$ 30,915,837	\$ 31,260,510

Construction in progress as of June 30, 2021 and 2020 consisted primarily of improvements to landscaping and the golf course, as well as building renovation.

9. Income Taxes

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

	2021	2020
Current:		
Federal	\$ -0-	\$ -0-
State	36,714	24,682
	\$ 36,714	\$ 24,682
Deferred (Note 5):		
Federal	\$ -0-	\$ -0-
State	9,061	3,128
	\$ 9,061	\$ 3,128

Federal income tax expense has been reduced in both years by general tax credits available to the Association. As of June 30, 2021 and 2020, the Association had federal tax credits available for taxes paid on tips of \$46,651 and \$54,715, respectively.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2021 and 2020

10. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Repairs and maintenance:		
Fencing	\$ -0-	\$ 29,487
Pool & pool deck resurfacing	-0-	26,849
	\$ -0-	\$ 56,336
	2021	2020
Property and equipment replacement:		
Furniture and equipment	\$ 415,300	\$ 671,723
Building	9,975	-0-
Land improvements	2,295	41,350
Construction in progress	62,073	-0-
	\$ 489,643	\$ 713,073

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, 2021 and 2020, 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, 2021 and 2020, employer matching contributions are \$113,373 and \$144,831, respectively.

12. 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 \$128,853 and \$121,437 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021, future minimum lease payments under such leases are as follows:

<u>Year Ending June 30</u>	
2022	\$ 84,732
2023	19,106
	\$ 103,838

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

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June 30, 2021 and 2020

13. Member Assessments 2021/2022

The Association's Board of Directors has approved a regular assessment of \$2,160 per lot (\$180 per month) for the year ending June 30, 2022. In April of 2021, the Board approved an assessment credit of \$180 per lot to be applied on July 1, 2021. Total member's assessments are \$6,157,800 (net of a \$559,800 credit), of which \$1,554,918 will be allocated to the reserve fund.

14. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Common area improvement savings	\$ 2,309,983	\$ 1,442,739
Operating emergency account	415,329	417,136
Operating surplus	1,453,747	336,429
	<u>\$ 4,179,059</u>	<u>\$ 2,196,304</u>

15. 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.

16. Subsequent Events

Subsequent events have been evaluated by management through September 16, 2021, the date that the statements were available for issuance.

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

June 30, 2021

(Unaudited)

The Association' updated a study in 2021 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, 2021 is \$11,273,437. The 2021/2022 budget includes \$1,554,918 of assessments allocated to the reserve fund, plus \$278,574 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
Paving	1-14	4-27	\$ 658,279
Roofing	2-14	20-40	393,065
Painting	1-6	5-14	178,246
Fencing & walls	3-27	16-40	237,310
Lighting	4-19	20-31	276,160
Pools & pool areas	1-6	6-17	222,229
Sports courts	1-8	4-16	143,365
Furniture & fixtures	1-16	6-31	1,127,105
Floor coverings	1-15	7-31	590,001
Wall coverings	2-25	20-31	146,993
Window coverings	1-5	6-14	55,186
Equipment	0-26	5-40	6,005,825
Golf course	1-3	5-28	218,884
Irrigation - golf courses	2-17	12-30	5,729,484
Landscaping & irrigation - common areas	1-4	5-16	373,760
Miscellaneous	0-24	6-36	1,812,427
			<u>\$ 18,168,319</u>