

RECREATION CENTERS OF SUN CITY WEST, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2019 AND 2018



CLAconnect.com

**WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING**

**RECREATION CENTERS OF SUN CITY WEST, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
SUPPLEMENTARY INFORMATION	
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)	16



INDEPENDENT AUDITORS' REPORT

Board of Directors
Recreation Centers of Sun City West, Inc.
Sun City West, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Recreation Centers of Sun City West, Inc., which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in members' equity, 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 audit 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.

Board of Directors
Recreation Centers of Sun City West, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Recreation Centers of Sun City West, Inc. as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements (unaudited) be presented on pages 16 through 18 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.



CliftonLarsonAllen LLP

Phoenix, Arizona
August 22, 2019

RECREATION CENTERS OF SUN CITY WEST, INC.
BALANCE SHEETS
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 8,802,521	\$ 9,446,044
Reserve Funds Limited to Use	25,508,541	22,725,178
Receivables:		
Membership Dues, Net	632,945	621,327
Other	899,128	671,735
Inventories	235,886	274,279
Prepaid Expenses and Other Assets	309,334	323,646
Total Current Assets	36,388,355	34,062,209
LAND, BUILDINGS, AND EQUIPMENT, Net	44,911,123	42,789,096
Total Assets	\$ 81,299,478	\$ 76,851,305
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,309,094	\$ 2,188,298
Deferred Income	7,240,982	6,840,752
Total Current Liabilities	9,550,076	9,029,050
MEMBERS' EQUITY		
Undesignated	46,240,861	45,097,077
Board-Designated	25,508,541	22,725,178
Total Members' Equity	71,749,402	67,822,255
Total Liabilities and Members' Equity	\$ 81,299,478	\$ 76,851,305

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES		
Membership Dues and Other Fees	\$ 14,012,439	\$ 13,669,715
Golf Course Fees	7,385,792	7,507,550
Ancillary Revenue	799,384	763,166
Bowling Fees	634,837	607,172
Recreation Fees	142,612	110,992
Special Events	269,915	221,859
Merchandise Sales	262,113	239,452
Food and Beverage	275,218	259,994
Interest Income on Operating Fund	552	7,208
Investment Income on Reserve Investments	555,302	456,230
Net Realized and Unrealized Gain on Reserve Investments	942,433	346,034
Loss on Disposal of Assets	(321,692)	(97,531)
Asset Preservation Fee	4,280,500	4,451,000
Club Funding of Capital Projects	603,556	-
Total Revenues	29,842,961	28,542,841
EXPENSES		
Wages and Benefits	13,824,095	13,395,880
Utilities	2,458,251	2,640,216
Repairs and Maintenance	1,621,751	1,508,724
Landscape Maintenance	1,303,724	1,278,483
Supplies and Services	650,679	641,809
Operating Expenses	824,249	671,702
Taxes and Insurance	599,094	572,172
Interest and Financial Expense	384,022	339,508
Employee-Related Expenses	259,098	165,287
Legal and Professional	275,361	229,522
Depreciation and Amortization	3,715,490	3,654,196
Total Expenses	25,915,814	25,097,499
EXCESS OF REVENUES OVER EXPENSES	3,927,147	3,445,342
Members' Equity - Beginning of Year	67,822,255	64,376,913
MEMBERS' EQUITY - END OF YEAR	\$ 71,749,402	\$ 67,822,255

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues Over Expenses	\$ 3,927,147	\$ 3,445,342
Adjustments to Reconcile Excess of Revenues Over Expenses		
Net Cash Provided by Operating Activities:		
Provision for Doubtful Accounts	10,000	-
Depreciation and Amortization	3,715,490	3,654,196
Loss on Disposal of Assets	321,692	97,531
Net Realized and Unrealized Gain on Reserve Investments	(942,433)	(346,034)
Asset Preservation and Facility Investment Fees	(4,280,500)	(4,451,000)
(Increase) Decrease in Assets:		
Receivables, Net	(249,011)	224,165
Inventories	38,393	(804)
Prepaid Expenses and Other Assets	14,312	(58,574)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	120,796	(506,160)
Deferred Income	400,230	185,792
Net Cash Provided by Operating Activities	3,076,116	2,244,454
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(555,302)	(456,230)
Asset Preservation and Facility Investment Fees	4,280,500	4,451,000
Net Transfers to/from Reserves	(1,285,628)	(1,272,275)
Purchases of Land, Buildings, and Equipment	(6,159,209)	(5,967,764)
Proceeds from Sale of Assets	-	11,876
Net Cash Used by Investing Activities	(3,719,639)	(3,233,393)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	(643,523)	(988,939)
Cash and Cash Equivalents - Beginning of Year	9,446,044	10,434,983
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 8,802,521	\$ 9,446,044

See accompanying Notes to Financial Statements.

**RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Recreation Centers of Sun City West, Inc. (the Association) was incorporated in October 1979 in the state of Arizona as a nonprofit organization. The purpose of the Association is to operate, maintain, and preserve facilities which enhance the recreational, social, and leisure interests of its members and to provide and maintain certain civic and community services. The membership consists of homeowners and other residents in Sun City West, Arizona, which totaled 28,441 and 28,657 at June 30, 2019 and 2018, respectively.

Membership in the Association is limited to homeowners or residents of Sun City West, Arizona who meet certain qualifications. A total of 17,741 rooftops at June 30, 2019 and 2018, have been developed within Sun City West. Approval of the Association's governing board of directors is required for any additional rooftops to become eligible for membership in the Association.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments and other short-term investments with an original maturity when purchased of three months or less.

As of June 30, 2019 and 2018, total cash and cash equivalents for the operating and reserve accounts (See Reserve Funds Limited to Use below) consisted of the following:

	<u>2019</u>	<u>2018</u>
Operating Accounts	\$ 8,802,521	\$ 9,446,044
Reserve Funds Limited to Use	3,670,340	2,868,500
Total	<u>\$ 12,472,861</u>	<u>\$ 12,314,544</u>

Reserve Funds Limited to Use

Reserve Funds Limited to Use includes cash and cash equivalents, certificates of deposits, and available-for-sale securities (See Investments Policy on page 7 and Note 2 for balance detail). These are funds designated by the board of directors for major capital replacements and repairs (See Board Designations Note 7 and the Supplementary Schedule on page 17).

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Association classifies its investments in one of three categories: trading, available for sale, or held to maturity. These balances are included in the Reserve Funds Limited to Use on the balance sheets. Investments at June 30, 2019 and 2018, consist of U.S. Treasury Bills and other obligations guaranteed by the U.S. government, certificates of deposit, which are held to maturity, and debt and equity securities which are available for sale. Held-to-maturity securities are those securities which the Association has the ability and intent to hold to maturity. The investments are stated at cost with the discounts and/or premiums amortized over the remaining life of the investments. Interest income is recognized when earned. Available-for-sale securities are reported at estimated fair values based on quoted prices in active markets (all Level 1 measurements) in the balance sheets. Realized and unrealized gains and losses are reported in the statements of revenues, expenses, and changes in members' equity under revenues or expenses.

Membership Dues Receivable

The annual budget and member assessments are approved by the governing board of directors. Members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Membership dues receivable at the balance sheet date represent fees due from members. The Association accounts for receivables on the cost basis. Receivables are considered delinquent after 30 days, at which time the Association pursues collection. Receivables are reviewed regularly, and liens are filed against the property after 120 days related to the delinquent account. The Association has provisions to assess late fees and lien the real property. If these provisions fail, the Association could incur a loss equal to the amount of the receivable.

Inventories

Inventories consist primarily of golf merchandise and food and beverages, which are stated at the lower of cost or net realizable value, on a first-in, first-out (FIFO) basis.

Common Property

The Association holds title to common real property consisting of seven golf courses, four recreation centers, a library, and a bowling alley. The Association is responsible for preserving and maintaining the properties and may dispose of them only with the majority consent of the members. In conformity with industry practice, the Association recognizes the following common property as assets:

- Common personal property
- Common real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members or from nonmembers

Accordingly, the Association recognized the acquisition of the golf courses, recreation centers, and the land on which they are built as assets at their value on the dates they were transferred from the developer.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Land, Buildings, and Equipment

Land, buildings, and equipment are initially recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount of fair value less costs to sell.

Deferred Income

Deferred income consists principally of annual membership dues, fees, and golf fees paid in advance. These dues and fees are reflected in operating revenue ratably over the yearly period to which they apply. Prepaid membership and golf fees are refunded on a pro rata basis to members as defined by the Association Policy Statements.

Membership Dues Revenue

Association members are subject to annual charges to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments are recognized in income as earned. Excess annual revenues over expenses at year-end are transferred to the reserve fund.

Asset Preservation Fee

New members of the Association are subject to a one-time fee which is charged when the home is purchased.

Income Taxes

The Association qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code and, therefore, there is no provision for income taxes. The Association has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable. The Association is also exempt from state of Arizona taxation.

The Association believes that there are no uncertain tax positions in accordance with applicable standards.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

The federal and state corporate tax returns of the Association are subject to examination by the Internal Revenue Service and state taxing authorities, generally for three years after they were filed.

Concentration of Credit Risk

The Association maintains its cash and cash equivalents with commercial banks and brokerage accounts with other institutions. Balances on deposit with commercial banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. The Association may, in the normal course of business, maintain checking and savings account balances in excess of FDIC's insurance limit in the United States. The Association monitors the financial condition of its depository bank, which is currently rated Aa3 by *Moody's* and A+ by *Standard & Poor's*, on a regular basis.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the entity for annual periods beginning after December 15, 2018. Management is evaluating the impact of the revenue recognition guidance on the Company's financial statements.

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The accounting for lessors will remain relatively unchanged. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Company's financial statements.

Reclassifications

Certain amounts in 2018 have been reclassified for comparative purposes to conform with the presentation in 2019. The reclassifications have no effect on the previously reported net income or equity.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 RESERVE FUNDS LIMITED TO USE

Reserve Funds Limited to Use consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Reserve Funds Limited to Use:		
Cash and Cash Equivalents	\$ 3,670,340	\$ 2,868,500
Available-for-Sale Securities:		
Equities	8,716,164	8,246,585
Debt Securities	13,122,037	11,610,093
Total	<u>\$ 25,508,541</u>	<u>\$ 22,725,178</u>

Investment securities in government and agency bonds and mortgage and asset-backed bonds have been classified according to management's intent. See Note 3 for the fair value measurement. The following is a summary of investment maturities of securities held to maturity as of June 30, 2019:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Amounts Maturing in:		
One Year or Less	\$ 3,670,340	\$ 3,670,340
Total	<u>\$ 3,670,340</u>	<u>\$ 3,670,340</u>

NOTE 3 FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles have established a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Levels within the hierarchy are based on the reliability of inputs as follows:

Level 1 – Inputs to the valuation methodology are based on unadjusted quoted prices for identical assets or liabilities in active markets;

Level 2 – Inputs to valuation methodology are based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

Level 3 – Inputs to the valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

In determining fair value, the Association uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on assumptions that market participants would use in pricing an asset or liability.

The following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy:

Equity securities listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active at the last transaction price before year-end. Such securities are classified within Level 1 of the valuation hierarchy.

Debt securities consisting of publicly traded bonds are valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality, and type. Such debt securities are generally classified within Level 1 of the valuation hierarchy.

In some instances, there are investments in private equity funds that serve as an investment manager to purchase investments mainly in domestic stocks, single mutual bonds, international stock, short-term securities, and fixed securities and the majority of the underlying securities have observable Level 1 quoted pricing inputs. While the underlying asset values are quoted prices, the net asset value of the private equity fund is not publicly quoted and is considered to fall within Level 2 of the fair value hierarchy.

Private equity funds, funds of funds, limited partnerships, and hedge funds are valued at fair value at their net asset values. These prices are not publicly quoted and are considered to fall within Level 3 of the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Following is a description of the nature and risks of the categories of assets by major security type.

Fixed Income: Consists of a certificate or other evidence of a debt (secured or unsecured) on which the issuing company or governmental body promises to pay the holder thereof a fixed, variable, or floating rate of interest for a specified length of time and to repay the debt on the specified maturity date. These securities include a variety of fixed income obligations, including, but not limited to, corporate bonds, government securities, municipal securities, convertible securities, mortgage-backed securities, and asset-backed securities.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

U.S. Equities: These investments seek to provide long-term growth of capital and income through primarily investing in common stock. Blend funds contain investments representative of the overall stock market in size, growth rates, and price. Value funds focus on investing in big companies that are less expensive or growing more slowly than other stocks. Growth funds invest in big companies that are projected to grow faster than other large cap stocks.

Non-U.S. Equities: These primarily invest in securities of issuers in Europe and the Pacific Basin that the advisor believes has potential for growth. Most funds divide their assets among a dozen or more developed markets, and the remainder in emerging markets.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30:

	2019			Total
	Level 1	Level 2	Level 3	
Equities:				
U.S. Equities	\$ 6,438,491	\$ -	\$ -	\$ 6,438,491
Non U.S. Equities	2,277,673	-	-	2,277,673
Debt Securities:				
Fixed Income	13,122,037	-	-	13,122,037
Total	<u>\$ 21,838,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,838,201</u>
	2018			Total
	Level 1	Level 2	Level 3	
Equities:				
U.S. Equities	\$ 5,981,803	\$ -	\$ -	\$ 5,981,803
Non U.S. Equities	2,264,782	-	-	2,264,782
Debt Securities:				
Fixed Income	11,610,093	-	-	11,610,093
Total	<u>\$ 19,856,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,856,678</u>

NOTE 4 MEMBERSHIP DUES RECEIVABLE

The membership dues receivable consist of the following:

	2019	2018
Membership Dues Receivable	\$ 796,709	\$ 791,215
Allowance for Doubtful Membership Dues	(163,764)	(169,888)
Total Membership Dues Receivable, Net	<u>\$ 632,945</u>	<u>\$ 621,327</u>

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 5 CONCENTRATIONS OF RISKS

Financial instruments that subject the Association to potential concentrations of credit risk consist principally of assessments receivable which is included in membership dues receivables on the balance sheets. The receivables are substantially all due from the Association's members, within a relatively small geographic area. Concentrations of credit risk with respect to receivables are extremely limited due to the fact that the amounts are due from members of the Association, are individually insignificant, and are subject to real property liens by the Association.

NOTE 6 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	<u>2019</u>	<u>2018</u>
Land and Improvements	\$ 51,989,697	\$ 50,295,010
Buildings and Improvements	48,428,719	47,505,433
Equipment	<u>21,327,054</u>	<u>21,278,882</u>
Total	121,745,470	119,079,325
Less: Accumulated Depreciation	<u>(76,834,347)</u>	<u>(76,290,229)</u>
Total Land, Buildings, and Equipment, Net of Accumulated Depreciation	<u><u>\$ 44,911,123</u></u>	<u><u>\$ 42,789,096</u></u>

Depreciation expense was \$3,715,490 and \$3,654,196 for the years ended June 30, 2019 and 2018, respectively.

NOTE 7 BOARD DESIGNATIONS

The Association's governing documents require funds to be accumulated for major construction repairs, replacement, and improvements to buildings and equipment, bowling facilities, bowling equipment, and golf courses. These amounts are held in separate accounts and are not available for operating purposes. The board of directors determines annually the amount of transfers to be made based on operating results, capital expenditures, and depreciation expense. Management has developed a five-year forecast for capital expenditures which include repair, replacements, and new capital. The actual expenditures may vary from these estimates and such variations may be material. Due to the estimations involved, amounts accumulated in the Capital Reserves could potentially not be adequate to meet future needs. However, management believes the funds for future repairs and replacements are adequate at June 30, 2019 and 2018.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 7 BOARD DESIGNATIONS (CONTINUED)

	2019	2018
Board-Designated Funds - Beginning of Year	\$ 22,725,178	\$ 20,650,639
Annual Cash Flow Funding	1,285,628	1,272,275
Reserve Fund Draw	-	-
Investment Income and Gain (Loss)	1,497,735	802,264
Total Designated Assets - End of Year	25,508,541	22,725,178
Transfers Subsequent to Year-End (Unaudited):		
Operating Cash Flow	1,260,846	1,846,283
Reserve Fund Reimbursement	-	-
Asset Preservation Fees Over (Under)		
Capital Expenditures	(1,829,493)	(1,448,599)
Encumbered Capital Decrease (Increase)	615,344	956,892
Club Funded Capital Over (Under) Club Funded		
Capital Expenditures	-	(68,940)
Net Transfers Subsequent to Year-End (Unaudited)	46,697	1,285,636
Total Board-Designated Funds, Subsequent to		
Year-End	\$ 25,555,238	\$ 24,010,814

NOTE 8 DEFINED CONTRIBUTION SAVINGS PLAN

The Association has a 401(k) defined contribution savings plan covering certain full-time employees who are at least 21 years of age and have completed six months of service. Contributions are made at the Association's discretion. The profit sharing and 401(k) matching contributions totaled \$350,226 and \$373,872 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 LITIGATION

The Association may become involved in claims and pending litigation arising in the normal course of its operations. The Association is currently not involved in any such litigation which management believes could have a material adverse effect on the Association's financial position.

NOTE 10 COMMITMENTS AND CONTINGENCIES

The Association enters into various contracts for landscape and other services. Generally, all contracts are for one-year terms and can be canceled by either party with 30 to 90 days' notification.

RECREATION CENTERS OF SUN CITY WEST, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 11 SUBSEQUENT EVENTS

Management evaluated subsequent events through August 22, 2019, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2019, but prior to August 22, 2019, that provided additional evidence about conditions that existed at June 30, 2019, have been recognized in the financial statements for the year ended June 30, 2019. Events or transactions that provided evidence about conditions that did not exist at June 30, 2019, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2019.

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

A Level II (update with a site visit) capital replacement reserve study was performed as of June 30, 2016, by a reserve specialist contracted by the Recreation Centers of Sun City West, Inc.. The purpose of the study was to estimate the remaining useful lives and the replacement costs of common property (excluding land and buildings) of Recreation Centers of Sun City West, Inc.. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Funding of the replacement takes into account the effects of inflation at an annual rate of 3% between the date of the study and the date that the components will require repair or replacement. Management updated the capital replacement reserve study as of June 30, 2017 utilizing a tool provided by the reserve specialist. As of August 22, 2019, the reserve tool had not be updated to reflect the activity during the fiscal year ended, June 30, 2019. However, the board-designated assets were adjusted appropriately and the fully funded balance as of June 30, 2019 is estimated at \$34,950,058.

Reserve fund strength is measured as a percentage. Typically, associations with a percent funded level of 70% and above have a low risk for special assessments. Conversely, associations with a percent funded level of 30% and below have a high risk of special assessments and deferred maintenance.

During the fiscal year ended June 30, 2017, the governing board approved setting the repair and replacement percentage funding goal at 70%. The estimated percentage funded as of June 30, 2019 was 64.38%.

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

A summary of the estimated current replacement cost and current reserve account balance is presented below. Estimated remaining life is as of the date of the asset replacement study.

Components	Estimated Remaining Life	Estimated Current Replacement Costs	Reserve Account Balance at June 30, 2019
Recreation Centers Division:			
RH Johnson Recreation Center	0-29	\$ 8,527,465	\$ -
Beardsley Recreation Center	0-27	3,687,028	-
Kuentz Recreation Center	0-27	3,365,376	-
Palm Ridge Recreation Center	0-23	3,388,278	-
Total Recreation Centers Division		18,968,147	-
Sports Pavilion Division	0-27	3,613,294	-
Golf Course Division:			
Pebblebrook Golf Course	0-23	6,045,827	-
Stardust Golf Course	0-22	4,880,398	-
Grandview Golf Course	0-27	6,068,283	-
Echo Mesa Golf Course	0-25	5,169,769	-
Trail Ridge Golf Course	0-22	5,732,237	-
Deer Valley Golf Course	0-27	4,996,286	-
Desert Trails Golf Course	0-27	4,814,782	-
Golf General	0-5	452,132	-
Total Golf Course Division		38,159,714	-
Infrastructure	0-23	2,271,368	-
Reserve Funds		-	25,508,541
Total		\$ 63,012,523	\$ 25,508,541

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
JUNE 30, 2019
(SEE INDEPENDENT AUDITORS' REPORT)

The governing board has established the basis for the Association's facility reserve in governing board policy Fi 4. This policy requires that reserve requirements be determined on an annual basis as part of the Annual Financial Plan.

Current year asset preservation fees, board designations of members' equity, and other cash flows generated during the year, fund an annual capital budget which is approved by the governing board for necessary replacement of capital assets due to normal usage and age, as well as new capital projects.

A summary of the estimated reserve required to fund the annual major repairs and or replacement of the Association's capital assets due to normal usage, age, and to continue the normal maintenance and operation of the facilities are as follows:

Reserve for Repair and Replacement	\$ 22,353,929
Reserve for Future Capital Requirements	<u>3,154,612</u>
Total	<u><u>\$ 25,508,541</u></u>
 Reserve Account Balance	 <u><u>\$ 25,508,541</u></u>

