RECREATION CENTERS OF SUN CITY WEST, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2020 AND 2019

RECREATION CENTERS OF SUN CITY WEST, INC.
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019

CliftonLarsonAllen LLP
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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, 2020 and 2019, 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.

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, 2020 and 2019, 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

CliftonLarsonAllen LLP

Phoenix, Arizona
September 22, 2020

RECREATION CENTERS OF SUN CITY WEST, INC.
BALANCE SHEETS
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 12,326,285	$ 8,802,521
Reserve Funds Limited to Use	27,246,776	25,508,541
Receivables:		
Membership Dues, Net	288,465	171,185
Other	884,094	899,128
Inventories	222,632	235,886
Prepaid Expenses and Other Assets	350,918	309,334
Total Current Assets	41,319,170	35,926,595
LAND, BUILDINGS, AND EQUIPMENT, Net	45,359,956	44,911,123
Total Assets	$ 86,679,126	$ 80,837,718
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,591,550	$ 2,309,094
Deferred Income	6,941,795	6,779,222
Current Maturities of Long-Term Debt	2,245,716	-
Total Liabilities	11,779,061	9,088,316
MEMBERS' EQUITY		
Undesignated	47,653,289	46,240,861
Board-Designated	27,246,776	25,508,541
Total Members' Equity	74,900,065	71,749,402
Total Liabilities and Members' Equity	$ 86,679,126	$ 80,837,718

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, 2020 AND 2019

	2020	2019
REVENUES		
Membership Dues and Other Fees	$ 14,344,289	$ 14,012,439
Golf Course Fees	7,002,085	7,385,792
Ancillary Revenue	712,774	799,384
Bowling Fees	522,293	634,837
Recreation Fees	97,038	142,612
Special Events	178,516	269,915
Merchandise Sales	183,048	262,113
Food and Beverage	167,123	275,218
Interest Income on Operating Fund	250	552
Investment Income on Reserve Investments	602,699	555,302
Net Realized and Unrealized Gain on Reserve Investments	1,088,839	942,433
Loss on Disposal of Assets	(53,104)	(321,692)
Asset Preservation Fee	3,995,800	4,280,500
Club Funding of Capital Projects	98,185	603,556
Total Revenues	28,939,835	29,842,961
EXPENSES		
Wages and Benefits	14,355,099	13,824,095
Utilities	2,266,380	2,458,251
Repairs and Maintenance	1,465,600	1,621,751
Landscape Maintenance	1,364,130	1,303,724
Supplies and Services	576,257	650,679
Operating Expenses	717,134	824,249
Taxes and Insurance	624,968	599,094
Interest and Financial Expense	339,422	384,022
Employee-Related Expenses	192,371	259,098
Legal and Professional	224,860	275,361
Depreciation and Amortization	3,662,951	3,715,490
Total Expenses	25,789,172	25,915,814
EXCESS OF REVENUES OVER EXPENSES	3,150,663	3,927,147
Members' Equity - Beginning of Year	71,749,402	67,822,255
MEMBERS' EQUITY - END OF YEAR	$ 74,900,065	$ 71,749,402

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Revenues Over Expenses	$ 3,150,663	$ 3,927,147
Adjustments to Reconcile Excess of Revenues Over Expenses		
Net Cash Provided by Operating Activities:		
Provision for Doubtful Accounts	(43,822)	10,000
Depreciation and Amortization	3,662,951	3,715,490
Loss on Disposal of Assets	53,104	321,692
Net Realized and Unrealized Gain on Reserve Investments	(1,088,839)	(942,433)
Asset Preservation and Facility Investment Fees	(3,995,800)	(4,280,500)
(Increase) Decrease in Assets:		
Receivables, Net	(58,424)	(249,011)
Inventories	13,254	38,393
Prepaid Expenses and Other Assets	(41,584)	14,312
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	282,456	120,796
Deferred Income	162,573	400,230
Net Cash Provided by Operating Activities	2,096,532	3,076,116
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(602,699)	(555,302)
Asset Preservation and Facility Investment Fees	3,995,800	4,280,500
Net Transfers to/from Reserves	(46,697)	(1,285,628)
Purchases of Land, Buildings, and Equipment	(4,164,888)	(6,159,209)
Net Cash Used by Investing Activities	(818,484)	(3,719,639)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	2,245,716	-
Cash Provided by Financing Activities	2,245,716	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,523,764	(643,523)
Cash and Cash Equivalents - Beginning of Year	8,802,521	9,446,044
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,326,285	$ 8,802,521
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	$ -	$ -

See accompanying Notes to Financial Statements.

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 28,664 and 28,441 at June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, total cash and cash equivalents for the operating and reserve accounts (See Reserve Funds Limited to Use below) consisted of the following:

	2020	2019
Operating Accounts	$ 12,326,285	$ 8,802,521
Reserve Funds Limited to Use	3,755,431	3,670,340
Total	$ 16,081,716	$ 12,472,861

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 accounting 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 the Supplementary Schedule on page 17).

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, 2020 and 2019, 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

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.

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

Regular assessments (Membership Dues) are levied for the member's proportionate share of common expenses. 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 are billed annually. Membership dues revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are generally the costs of operating the Association. The regular assessment revenue is recognized over the assessment period, which is generally one year. If a supplemental estimate is charged due to the inadequacy of the regular assessment, the supplemental estimate will be recognized as revenue in the current year of the inadequate regular assessment.

Golf Course Fees

The Association controls and operates seven golf courses that members have the option to utilize. Members pay golf fee in advance for a twelve month period, at time of use or a combination of both. Golf course fees are recognized as the related performance obligations (the use of the course) are satisfied at transaction amounts expected to be collected. The golf course fees paid in advance are recognized over the twelve month period.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Asset Preservation Fee

Asset preservation fees are due upon becoming the owner of a lot in the Association. The asset preservation fees are used as a contribution to the capital of the Association for capital additions.

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.

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.

Reclassifications

Certain amounts in 2019 have been reclassified for comparative purposes to conform to the presentation in 2020. The reclassifications have no effect on the previously reported net income or equity.

NOTE 2 RESERVE FUNDS LIMITED TO USE

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

	2020	2019
Reserve Funds Limited to Use:		
Cash and Cash Equivalents	$ 3,755,431	$ 3,670,340
Available-for-Sale Securities:		
Equities	9,283,345	8,716,164
Debt Securities	14,208,000	13,122,037
Total	$ 27,246,776	$ 25,508,541

NOTE 2 RESERVE FUNDS LIMITED TO USE (CONTINUED)

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, 2020:

	Amortized Cost	Fair Value
Amounts Maturing in:		
One Year or Less	$ 3,755,431	$ 3,755,431
Total	$ 3,755,431	$ 3,755,431

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.

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, of 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.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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.

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

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

	2020			
	Level 1	Level 2	Level 3	Total
Equities:				
U.S. Equities	$ 6,505,189	$ -	$ -	$ 6,505,189
Non U.S. Equities	2,778,156	-	-	2,778,156
Debt Securities:				
Fixed Income	14,208,000	-	-	14,208,000
Total	$ 23,491,345	$ -	$ -	$ 23,491,345

	2019			
	Level 1	Level 2	Level 3	Total
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	$ 21,838,201	$ -	$ -	$ 21,838,201

NOTE 4 MEMBERSHIP DUES RECEIVABLE

The membership dues receivable consist of the following:

	2020	2019
Membership Dues Receivable	$ 389,423	$ 334,949
Allowance for Doubtful Membership Dues	(100,958)	(163,764)
Total Membership Dues Receivable, Net	$ 288,465	$ 171,185

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:

	2020	2019
Land and Improvements	$ 52,783,933	$ 51,989,697
Buildings and Improvements	49,112,307	48,428,719
Equipment	22,739,180	21,327,054
Total	124,635,420	121,745,470
Less: Accumulated Depreciation	(79,275,464)	(76,834,347)
Total Land, Buildings, and Equipment, Net of Accumulated Depreciation	$ 45,359,956	$ 44,911,123

Depreciation expense was $3,662,951 and $3,715,490 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 LONG-TERM DEBT

In April 2020, the Association applied for and received a Paycheck Protection Program Loan under the CARES Act. It has been determined that the Association, as a 501(c)4, did not qualify for the program. Management and the board are determining what corrective actions to take. The following is the outstanding debt as of June 30,

	2020	2019
Note payable to JPMorgan Chase Bank, N.A. dated April 9, 2020 in the amount of $2,245,716, under the Small Business Administration, an Agency of the United States of America, Paycheck Protection Program bearing interest at 0.98%; secured by substantially all assets of the Association, management is determining proper corrective actions regarding eligibility of the debt.	$ 2,245,716	$ -

NOTE 8 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, 2020 and 2019.

NOTE 8 BOARD DESIGNATIONS (CONTINUED)

	2020	2019
Board-Designated Funds - Beginning of Year	$ 25,508,541	$ 22,725,178
Annual Cash Flow Funding	46,697	1,285,628
Reserve Fund Draw	-	-
Investment Income and Gain (Loss)	1,691,538	1,497,735
Total Designated Assets - End of Year	27,246,776	25,508,541
Transfers Subsequent to Year-End (Unaudited):		
Operating Cash Flow	1,028,080	1,260,846
Reserve Fund Reimbursement	-	-
Asset Preservation Fees Over (Under) Capital Expenditures	(70,900)	(1,225,937)
Encumbered Capital Decrease (Increase)	(1,516,212)	615,344
Club Funded Capital Over (Under) Club Funded Capital Expenditures	(98,185)	(603,556)
Net Transfers Subsequent to Year-End (Unaudited)	(657,217)	46,697
Total Board-Designated Funds, Subsequent to Year-End	$ 26,589,559	$ 25,555,238

NOTE 9 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 $392,918 and $350,226 for the years ended June 30, 2020 and 2019, respectively.

NOTE 10 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 11 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.

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Association, COVID-19 may impact various parts of its 2021 operations and financial results. Management believes the Association is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 12 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, 2019. Management is evaluating the impact of the revenue recognition guidance on the Association'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, 2021. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Association's financial statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
JUNE 30, 2020
(SEE INDEPENDENT AUDITORS' REPORT)

A Level II (update with a site visit) capital replacement reserve study was performed as of June 30, 2020, 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, 2020 utilizing a tool provided by the reserve specialist. As of September 22, 2020, 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, 2020 is estimated at $45,216,383.

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, 2020, the governing board approved setting the repair and replacement percentage funding goal at 40% - 100%. The estimated percentage funded as of June 30, 2020 was 56.41%.

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED) (CONTINUED)
JUNE 30, 2020
(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, 2020
Recreation Centers Division:			
RH Johnson Recreation Center	0 - 29	$ 11,389,919	$ -
Beardsley Recreation Center	0 - 27	3,757,228	-
Kuentz Recreation Center	0 - 27	3,238,025	-
Palm Ridge Recreation Center	0 - 23	3,738,661	-
Total Recreation Centers Division		22,123,833	-
Sports Pavilion Division	0 - 27	2,161,360	-
Golf Course Division:			
Pebblebrook Golf Course	0 - 23	8,248,534	-
Stardust Golf Course	0 - 22	6,088,239	-
Grandview Golf Course	0 - 27	9,875,668	-
Echo Mesa Golf Course	0 - 25	6,396,421	-
Trail Ridge Golf Course	0 - 22	7,451,176	-
Deer Valley Golf Course	0 - 27	7,970,583	-
Desert Trails Golf Couse	0 - 27	6,395,880	
Golf General	0 - 5	868,189	-
Total Golf Course Division		53,294,690	-
Infrastructure	0 - 23	2,053,560	-
Total		$ 79,633,443	$ 27,246,776

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	$ 25,447,858
Reserve for Future Capital Requirements	1,141,700
Total	$ 26,589,558
Reserve Account Balance	$ 27,246,776
Net Transfers Subsequent to Year-End	(657,218)
Reserve Account Balance	$ 26,589,558