RECREATION CENTERS OF SUN CITY WEST, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2023 AND 2022

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Recreation Centers of Sun City West, Inc. which comprise the balance sheets as of June 30, 2023 and 2022, 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.

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, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Recreation Centers of Sun City West, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Recreation Centers of Sun City West, Inc.'s ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Recreation Centers of Sun City West, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Recreation Centers of Sun City West, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
October 18, 2023

RECREATION CENTERS OF SUN CITY WEST, INC.
BALANCE SHEETS
JUNE 30, 2023 AND 2022

	2023			2022		
	Operating Fund	Reserve Fund	Totals	Operating Fund	Reserve Fund	Totals
ASSETS						
CURRENT ASSETS						
Cash and Cash Equivalents	$ 9,004,439	$ 147,400	$ 9,151,839	$ 13,380,285	$ 228,900	$ 13,609,185
Investments	-	31,344,338	31,344,338	-	27,515,675	27,515,675
Receivables:						
Membership Dues, Net	174,834	-	174,834	175,396	-	175,396
Other	496,407	-	496,407	587,510	-	587,510
Interfund Receivables (Payables)	4,823,038	(4,823,038)	-	(3,235,740)	3,235,740	-
Inventories	208,548	-	208,548	193,345	-	193,345
Prepaid Expenses and Other Assets	508,196	-	508,196	457,688	-	457,688
Total Current Assets	15,215,462	26,668,700	41,884,162	11,558,484	30,980,315	42,538,799
LAND, BUILDINGS, AND EQUIPMENT, Net	53,037,718	-	53,037,718	49,237,269	-	49,237,269
Total Assets	$ 68,253,180	$ 26,668,700	$ 94,921,880	$ 60,795,753	$ 30,980,315	$ 91,776,068
LIABILITIES AND MEMBERS' EQUITY						
CURRENT LIABILITIES						
Accounts Payable and Accrued Expenses	$ 2,425,534	$ -	$ 2,425,534	$ 2,082,497	$ -	$ 2,082,497
Deferred Income	7,906,530	-	7,906,530	7,295,895	-	7,295,895
Replacement Fund Reserve	-	26,668,700	26,668,700	-	30,980,315	30,980,315
Total Liabilities	10,332,064	26,668,700	37,000,764	9,378,392	30,980,315	40,358,707
MEMBERS' EQUITY	57,921,116	-	57,921,116	51,417,361	-	51,417,361
Total Liabilities and Members' Equity	$ 68,253,180	$ 26,668,700	$ 94,921,880	$ 60,795,753	$ 30,980,315	$ 91,776,068

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY
YEAR ENDED JUNE 30, 2023

	Operating Fund	Reserve Fund	Totals
REVENUES			
Membership Dues and Other Fees	$ 15,239,943	$ -	$ 15,239,943
Asset Preservation Fee	-	8,984,615	8,984,615
Golf Course Fees	9,636,528	-	9,636,528
Ancillary Revenue	1,070,791	-	1,070,791
Bowling Fees	779,257	-	779,257
Recreation Fees	136,400	-	136,400
Special Events Income (Loss)	252,321	-	252,321
Merchandise Sales Income	113,211	-	113,211
Food and Beverage Income	467,994	-	467,994
Club Funding of Capital Projects	-	162,365	162,365
Investment Income on Reserve Investments	88,853	718,310	807,163
Net Realized and Unrealized Loss on Reserve Investments	-	(265,765)	(265,765)
Gain on Disposal of Assets	68,445	-	68,445
Total Revenues	27,853,743	9,599,525	37,453,268
EXPENSES			
Wages and Benefits	16,472,781	-	16,472,781
Utilities	2,658,858	-	2,658,858
Repairs and Maintenance	1,727,770	-	1,727,770
Landscape Maintenance	2,048,455	-	2,048,455
Supplies and Services	713,856	-	713,856
Operating Expenses	897,085	-	897,085
Taxes and Insurance	788,478	-	788,478
Interest and Financial Expense	629,923	-	629,923
Employee-Related Expenses	165,107	-	165,107
Legal and Professional	118,594	-	118,594
Depreciation and Amortization	4,728,606	-	4,728,606
Total Expenses	30,949,513	-	30,949,513
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	(3,095,770)	9,599,525	6,503,755
INTERFUND TRANSFERS - CAPITAL EXPENDITURES	8,536,367	(8,536,367)	-
INTERFUND TRANSFERS - RESERVE CONTRIBUTION	(1,564,400)	1,564,400	-
INTERFUND TRANSFERS - OPERATING	2,627,558	(2,627,558)	-
Members' Equity - Beginning of Year	51,417,361	-	51,417,361
MEMBERS' EQUITY - END OF YEAR	$ 57,921,116	$ -	$ 57,921,116

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN MEMBERS' EQUITY
YEAR ENDED JUNE 30, 2022

	Operating Fund	Reserve Fund	Totals
REVENUES			
Membership Dues and Other Fees	$ 15,236,737	$ -	$ 15,236,737
Asset Preservation Fee	-	5,568,586	5,568,586
Golf Course Fees	9,226,588	-	9,226,588
Ancillary Revenue	1,109,474	-	1,109,474
Bowling Fees	728,680	-	728,680
Recreation Fees	115,668	-	115,668
Special Events Income (Loss)	241,656	-	241,656
Merchandise Sales Income	155,251	-	155,251
Food and Beverage Income	409,154	-	409,154
Club Funding of Capital Projects	-	10,025	10,025
Investment Income on Reserve Investments	-	424,034	424,034
Net Realized and Unrealized Loss on Reserve Investments	-	(3,493,585)	(3,493,585)
Loss on Disposal of Assets	(83,672)	-	(83,672)
Total Revenues	27,139,536	2,509,060	29,648,596
EXPENSES			
Wages and Benefits	14,729,727	-	14,729,727
Utilities	2,505,297	-	2,505,297
Repairs and Maintenance	1,636,551	-	1,636,551
Landscape Maintenance	2,179,782	-	2,179,782
Supplies and Services	616,063	-	616,063
Operating Expenses	720,909	-	720,909
Taxes and Insurance	757,081	-	757,081
Interest and Financial Expense	533,780	-	533,780
Employee-Related Expenses	127,401	-	127,401
Legal and Professional	273,680	-	273,680
Depreciation and Amortization	4,281,837	-	4,281,837
Total Expenses	28,362,108	-	28,362,108
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	(1,222,572)	2,509,060	1,286,488
INTERFUND TRANSFERS - CAPITAL EXPENDITURES	5,433,306	(5,433,306)	-
INTERFUND TRANSFERS - RESERVE CONTRIBUTION	(3,142,930)	3,142,930	-
INTERFUND TRANSFERS - OPERATING	218,684	(218,684)	-
Members' Equity - Beginning of Year	50,130,873	-	50,130,873
MEMBERS' EQUITY - END OF YEAR	$ 51,417,361	$ -	$ 51,417,361

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2023

	Operating Fund	Reserve Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of Revenues Over Expenses	$ 6,503,755	$ -	$ 6,503,755
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	4,728,606	-	4,728,606
Loss on Disposal of Assets	(68,445)	-	(68,445)
Provision for Doubtful Accounts	3,550	-	3,550
Net Realized and Unrealized Loss on Reserve Investments	-	265,765	265,765
(Increase) Decrease in Assets:			
Membership Dues, Net	(2,988)	-	(2,988)
Other	91,103	-	91,103
Interfund Receivables (Payables)	(8,058,778)	8,058,778	-
Inventories	(15,203)	-	(15,203)
Prepaid Expenses and Other Assets	(50,508)	-	(50,508)
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	343,037	-	343,037
Deferred Income	610,635	-	610,635
Replacement Fund Reserve	-	(4,311,615)	(4,311,615)
Net Cash Provided by Operating Activities	4,084,764	4,012,928	8,097,692
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	-	(4,094,428)	(4,094,428)
Proceeds From the Sale of Land, Buildings, and Equipment	75,757	-	75,757
Purchases of Land, Buildings, and Equipment	(8,536,367)	-	(8,536,367)
Net Cash Used by Investing Activities	(8,460,610)	(4,094,428)	(12,555,038)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,375,846)	(81,500)	(4,457,346)
Cash and Cash Equivalents - Beginning of Year	13,380,285	228,900	13,609,185
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,004,439	$ 147,400	$ 9,151,839

See accompanying Notes to Financial Statements.

RECREATION CENTERS OF SUN CITY WEST, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2022

	Operating Fund	Reserve Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of Revenues Over Expenses	$ 1,286,488	$ -	$ 1,286,488
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	4,281,837	-	4,281,837
Gain on Disposal of Assets	83,672	-	83,672
Provision for Doubtful Accounts	3,675	-	3,675
Net Realized and Unrealized Gain on Reserve Investments	-	3,493,585	3,493,585
(Increase) Decrease in Assets:			
Membership Dues, Net	25,606	-	25,606
Other	139,413	-	139,413
Interfund Receivables (Payables)	1,247,678	(1,247,678)	-
Inventories	(10,139)	-	(10,139)
Prepaid Expenses and Other Assets	(18,008)	-	(18,008)
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	(347,700)	-	(347,700)
Deferred Income	37,377	-	37,377
Replacement Fund Reserve	-	225,261	225,261
Net Cash Provided by Operating Activities	6,729,899	2,471,168	9,201,067
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Investments	-	(5,352,266)	(5,352,266)
Prrocceds From Sale of Certificates of Deposit	-	3,109,993	3,109,993
Proceeds From the Sale of Land, Buildings, and Equipment	15,872	-	15,872
Purchases of Land, Buildings, and Equipment	(5,433,306)	-	(5,433,306)
Net Cash Used by Investing Activities	(5,417,434)	(2,242,273)	(7,659,707)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,312,465	228,895	1,541,360
Cash and Cash Equivalents - Beginning of Year	12,067,820	5	12,067,825
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 13,380,285	$ 228,900	$ 13,609,185

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 28,174 and 28,256 on June 30, 2023 and 2022, 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 as of June 30, 2023 and 2022, 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.

Fund Accounting

The Association's governing documents provide certain guidelines for governing 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

This fund is used to account for financial resources available for the general operations of the Association.

Reserve Fund

This fund is used to account for the accumulation of financial resources designated for future major repairs and replacements.

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.

Investments

Investments, consisting primarily of certificates of deposit, U.S. Treasury Bills and other obligations guaranteed by the U.S. government and equity securities with readily determinable market values are measured at fair value, as of period-end in the financial statements. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on investments are recognized in the statement of revenues, expenses, and changes in fund balances.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Membership dues receivable balance at December 31, 2023, 2022, and 2021 were $174,834, $175,396, and $204,677, respectively.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Deferred income balance at December 31, 2023, 2022, and 2021 were $7,906,530, $7,295,895, and $7,258,518, respectively.

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.

Reserve Fund Assessment Revenue

The Association allocates a portion of the membership dues (reserve contributions) to reserve funds to pay capital expenditures not assessed to the members by the regular assessments. Reserve fund assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The performance obligations related to the reserve contributions are satisfied when these funds are expended for their designated purpose. Unspent funds will present as a liability on the balance sheet. Replacement fund reserve balances at December 31, 2023, 2022, and 2021 were $26,668,700, $30,980,315 and $30,755,054, respectively.

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 12-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 12-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 Association for future major repairs and replacements. Asset preservation fees are recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The performance obligations related to the asset preservation fees are satisfied when these funds are expended for their designated purpose. Unspent funds will present as a liability on the balance sheet.

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.

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.

Change in Accounting Policies

The Association changed accounting policies related to leases by adopting Financial Accounting Standards Board (FASB) *Accounting Standards Codification* Topic 842, *Leases*, during the fiscal year. Accordingly, the accounting change has been applied to the beginning of the period of adoption. The change in accounting policy did not impact fund balances nor changes in fund balances.

NOTE 2 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.

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.

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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.

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.

The following table presents assets measured at fair value by classification within the fair value hierarchy as of June 30, 2023 and 2022:

	2023			
	Level 1	Level 2	Level 3	Total
Equities:				
U.S. Equities	$ 2,182,791	$ -	$ -	$ 2,182,791
Non-U.S. Equities	670,261	-	-	670,261
Debt Securities:				
Fixed Income	28,491,286	-	-	28,491,286
Total	$ 31,344,338	$ -	$ -	$ 31,344,338

	2022			
	Level 1	Level 2	Level 3	Total
Equities:				
U.S. Equities	$ 1,907,946	$ -	$ -	$ 1,907,946
Non-U.S. Equities	592,636	-	-	592,636
Debt Securities:				
Fixed Income	25,015,093	-	-	25,015,093
Total	$ 27,515,675	$ -	$ -	$ 27,515,675

NOTE 3 MEMBERSHIP DUES RECEIVABLE

The membership dues receivable consists of the following:

	2023	2022
Membership Dues Receivable	$ 223,235	$ 222,423
Allowance for Doubtful Membership Dues	(48,401)	(47,027)
Total Membership Dues Receivable, Net	$ 174,834	$ 175,396

NOTE 4 RELATED PARTY TRANSACTIONS

The Association has chartered clubs that operate under their own tax status and identification number, but act under the umbrella of the Association, and must be validated by the Association. The Association other receivables consist of the following as of June 30:

	2023	2022
Auto Restoration Club	$ 399,176	$ 474,975
Pickleball Club	59,979	68,416
Rotary Club	20,240	20,532
Tennis Club	17,012	17,012
Other	-	6,575
Total Membership Dues Receivable, Net	$ 496,407	$ 587,510

In addition, the Association owed the Softball Club $56,243 for the years ended June 30, 2023 and 2022 reported in accounts payable.

NOTE 5 LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following:

	2023	2022
Water Rights	$ 2,234,499	$ 2,234,499
Land	5,196,987	5,196,987
Construction in Progress	4,023,535	949,336
Land Improvements	49,071,721	47,989,431
Buildings and Improvements	53,502,423	51,991,402
Equipment	27,961,886	26,083,813
Total	141,991,051	134,445,468
Less: Accumulated Depreciation	(88,953,333)	(85,208,199)
Total Land, Buildings, and Equipment, Net	$ 53,037,718	$ 49,237,269

NOTE 6 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 $469,220 and $421,220 for the years ended June 30, 2023 and 2022, respectively.

NOTE 7 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that the funds be accumulated for future major repairs and replacements. Accumulated funds, which aggregated to $31,491,738 at June 30, 2023 are held in separate savings and investment accounts and are generally not available for expenditures for normal operations. Management has developed a five-year forecast for capital expenditures which include repair, replacements, and new capital.

A Level II (update with a site visit) capital replacement reserve study was performed as of July 1, 2022. The table included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

The Association has a goal to annually fund the Repair and Replacement Reserve Fund at 70% of the Current Fully Funded Reserve Balance, which was $57,100,760 as of July 1, 2023, per the reserve study.

NOTE 8 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 9 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.

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

A Level II (update with a site visit) capital replacement reserve study was performed as of July 1, 2022, 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 3.00% and net annual after tax interest earnings of 1.70%, 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 July 1, 2022, utilizing a tool provided by the reserve specialist. The board-designated assets were adjusted appropriately and the fully funded balance as of June 30, 2023 is estimated at $57,100,760.

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, 2023 was 55.15%.

RECREATION CENTERS OF SUN CITY WEST, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED) (CONTINUED)
JUNE 30, 2023
(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, 2023
Recreation Centers Division:			
RH Johnson Recreation Center	1 - 30	$ 13,638,722	$ -
Beardsley Recreation Center	1 - 28	4,696,150	-
Kuentz Recreation Center	1 - 28	4,793,350	-
Palm Ridge Recreation Center	1 - 24	4,421,230	-
Total Recreation Centers Division		27,549,452	-
Sports Pavilion Division	1 - 28	2,477,465	-
Golf Course Division:			
Pebblebrook Golf Course	1 - 24	9,172,972	-
Stardust Golf Course	1 - 23	7,312,998	-
Grandview Golf Course	1 - 28	12,368,930	-
Echo Mesa Golf Course	1 - 26	7,269,928	-
Trail Ridge Golf Course	1 - 23	7,266,866	-
Deer Valley Golf Course	1 - 26	7,820,153	-
Desert Trails Golf Couse	1 - 26	6,889,664	-
Golf General	1 - 6	1,035,000	-
Total Golf Course Division		59,136,511	-
Infrastructure	1 - 24	2,333,563	-
Total		$ 91,496,991	$ 31,491,738

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 Account Balance	$ 31,491,738
Net Transfers Subsequent to Year-End	(4,823,038)
Reserve Account Balance	$ 26,668,700