

SUN CITY ROSEVILLE  
COMMUNITY ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

June 30, 2010 and 2009

SUN CITY ROSEVILLE  
COMMUNITY ASSOCIATION, INC.

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# McCLINTOCK ACCOUNTANCY CORPORATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Sun City Roseville Community Association, Inc.

We have audited the accompanying balance sheets of Sun City Roseville Community Association, Inc. as of June 30, 2010 and 2009 and the related statements of revenue, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun City Roseville Community Association, Inc. as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

*McClintock Accountancy Corporation*

McCLINTOCK ACCOUNTANCY CORPORATION

Tahoe City, California

August 25, 2010

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS  
June 30, 2010 and 2009

	2010				2009			
	Operating Fund		Property & Equipment Fund		Operating Fund		Property & Equipment Fund	
		Reserve Fund		Total		Reserve Fund		Total
<b>ASSETS</b>								
Cash and cash equivalents	\$ 871,554	\$ -	\$ -	\$ 871,554	\$ 778,176	\$ -	\$ -	\$ 778,176
Accounts receivable, net of allowance for doubtful accounts of \$813 in 2010 and \$2,067 in 2009	30,649	-	-	30,649	18,700	-	-	18,700
Interest and other receivables	3,234	40,867	-	44,101	7,260	46,457	-	53,717
Inventory	148,888	-	-	148,888	157,570	-	-	157,570
Prepaid expenses	220,952	-	-	220,952	183,047	-	-	183,047
Investments (Notes 4 and 5)	801,037	5,910,264	-	6,711,301	984,013	5,591,823	-	6,575,836
Investments - capital improvements (Notes 4 and 5)	114,476	-	-	114,476	766,662	-	-	766,662
Investments - special reserve (Notes 4, 5 and 13)	-	325,777	-	325,777	-	346,513	-	346,513
Other assets	-	-	76,232	76,232	-	-	76,232	76,232
Property and equipment, net (Note 6)	-	-	32,491,012	32,491,012	-	-	31,747,270	31,747,270
<b>Total Assets</b>	<b>\$ 2,190,740</b>	<b>\$ 6,276,908</b>	<b>\$ 32,567,244</b>	<b>\$ 41,034,892</b>	<b>\$ 2,895,428</b>	<b>\$ 5,984,793</b>	<b>\$ 31,823,502</b>	<b>\$ 40,703,723</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Accounts payable	\$ 211,064	\$ -	\$ -	\$ 211,064	\$ 176,224	\$ -	\$ -	\$ 176,224
Accrued expenses	404,577	-	-	404,577	361,095	-	-	361,095
Due to (from) other funds	(23,494)	23,494	-	-	28,053	(28,053)	-	-
Gift certificates and other deposits	162,280	-	-	162,280	145,388	-	-	145,388
Deferred revenue	857,222	-	-	857,222	856,263	-	-	856,263
<b>Total Liabilities</b>	<b>1,611,649</b>	<b>23,494</b>	<b>-</b>	<b>1,635,143</b>	<b>1,567,023</b>	<b>(28,053)</b>	<b>-</b>	<b>1,538,970</b>
<b>Fund Balances</b>								
Operating fund balance (Note 15)	579,091	-	-	579,091	1,328,405	-	-	1,328,405
Reserve fund balance	-	5,927,637	-	5,927,637	-	5,666,333	-	5,666,333
Special reserve fund balance	-	325,777	-	325,777	-	346,513	-	346,513
Property & equipment fund balance	-	-	32,567,244	32,567,244	-	-	31,823,502	31,823,502
<b>Total Fund Balances</b>	<b>579,091</b>	<b>6,253,414</b>	<b>32,567,244</b>	<b>39,399,749</b>	<b>1,328,405</b>	<b>6,012,846</b>	<b>31,823,502</b>	<b>39,164,753</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,190,740</b>	<b>\$ 6,276,908</b>	<b>\$ 32,567,244</b>	<b>\$ 41,034,892</b>	<b>\$ 2,895,428</b>	<b>\$ 5,984,793</b>	<b>\$ 31,823,502</b>	<b>\$ 40,703,723</b>

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit B

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE  
For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Operating Fund	Reserve Fund	Property & Equipment Fund	Total	Operating Fund	Reserve Fund	Property & Equipment Fund	Total
Revenue:								
Members' assessments	\$ 4,191,852	\$ 847,080	\$ -	\$ 5,038,932	\$ 4,112,751	\$ 851,643	\$ -	\$ 4,964,394
Golf course operations, less cost of sales of \$104,632 in 2010 and \$85,766 in 2009	1,964,204	-	-	1,964,204	2,061,430	-	-	2,061,430
Food and beverage, less cost of sales of \$657,067 in 2010 and \$620,992 in 2009	1,243,507	-	-	1,243,507	1,177,971	-	-	1,177,971
Resident/newsletter activities	463,827	-	-	463,827	528,497	-	-	528,497
Fitness center, less cost of sales of \$32,417 in 2010 and \$54,699 in 2009	51,529	-	-	51,529	37,929	-	-	37,929
Investment revenue	18,893	232,960	-	251,853	68,577	272,482	-	341,059
Other revenue	83,745	-	-	83,745	124,567	-	-	124,567
Total Revenue	8,017,557	1,080,040	-	9,097,597	8,111,022	1,124,125	-	9,235,147
Expenses:								
Administration	1,417,746	-	-	1,417,746	1,475,563	-	-	1,475,563
Golf course operations	2,074,996	-	-	2,074,996	2,078,054	-	-	2,078,054
Food and beverage	1,372,750	-	-	1,372,750	1,410,939	-	-	1,410,939
Resident/newsletter activities	649,596	-	-	649,596	678,013	-	-	678,013
Fitness center	265,304	-	-	265,304	234,363	-	-	234,363
Facilities maintenance	1,288,372	-	-	1,288,372	1,315,530	-	-	1,315,530
Repair and maintenance (Note 8)	-	54,576	-	54,576	-	104,287	-	104,287
Landscaping (Note 13)	602,694	-	-	602,694	655,922	-	-	655,922
Provision for income taxes (Note 7)	11,667	31,130	-	42,797	23,200	30,266	-	53,466
Loss on disposal of fixed assets	-	-	29,677	29,677	-	-	38,789	38,789
Depreciation	-	-	1,064,093	1,064,093	-	-	947,599	947,599
Total Expenses	7,683,125	85,706	1,093,770	8,862,601	7,871,584	134,553	986,388	8,992,525
Revenue Over (Under) Expenses	334,432	994,334	(1,093,770)	234,996	239,438	989,572	(986,388)	242,622
Capital Expenditures Transfer (Note 8)	(1,083,746)	(753,766)	1,887,512	-	(222,933)	(1,163,767)	1,386,700	-
Fund Balance - Beginning of Year	1,328,405	6,012,846	31,823,502	39,164,753	1,311,900	6,187,041	31,423,190	38,922,131
Fund Balance - End of Year	\$ 579,091	\$ 6,253,414	\$ 32,567,244	\$ 39,399,749	\$ 1,328,405	\$ 6,012,846	\$ 31,823,502	\$ 39,164,753

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

Exhibit C

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2010 and 2009

	2010			2009		
	Operating Fund	Reserve Fund	Property & Equipment Fund Total	Operating Fund	Reserve Fund	Property & Equipment Fund Total
Cash Flows from Operating Activities:						
Revenue Over (Under) Expenses	\$ 334,432	\$ 994,334	\$ (1,093,770)	\$ 234,996	\$ 989,572	\$ (986,388)
Adjustments to Reconcile Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:						
Depreciation	(39,002)	-0-	1,064,093	(15,319)	-0-	947,599
Proceeds from property sale and conversion of gain/loss (Increase) Decrease in assets:						
Accounts receivable	(11,949)	-0-	(11,949)	8,424	-0-	-0-
Interest and other receivables	4,026	5,590	9,616	8,153	5,682	-0-
Inventory	8,732	-0-	8,732	75	-0-	75
Prepaid expenses	(37,905)	-0-	(37,905)	(71,469)	-0-	-0-
Increase (Decrease) in liabilities:						
Accounts payable	34,840	-0-	34,840	(10,428)	-0-	-0-
Accrued expenses	43,483	-0-	43,483	9,578	-0-	-0-
Income taxes payable	-0-	-0-	-0-	(26,528)	-0-	-0-
Due to/from other funds	(51,547)	51,547	-0-	(614)	614	-0-
Gift certificates and other deposits	16,893	-0-	16,893	(15,874)	-0-	-0-
Deferred revenues	959	-0-	959	(52,107)	-0-	-0-
Net Cash Provided by Operating Activities	302,962	1,051,471	1,354,433	73,329	995,868	-0-
Cash Flows from Investing Activities:						
Purchase of investments	(1,390,840)	(3,473,205)	(4,864,045)	(2,686,252)	(3,488,101)	-0-
Maturity of investments	2,226,000	3,175,500	5,401,500	2,751,000	3,656,000	-0-
Proceeds from sale of property and equipment	39,002	-0-	39,002	15,319	-0-	-0-
Acquisition of property and equipment	(1,083,746)	(753,766)	(1,837,512)	(220,627)	(1,163,767)	-0-
Net Cash (Used) by Investing Activities	(209,584)	(1,051,471)	(1,261,055)	(140,560)	(995,868)	-0-
Cash Flows from Financing Activities:						
Principle payments for capital lease obligation	-0-	-0-	-0-	(5,082)	-0-	-0-
Net Cash (Used) by Financing Activities	-0-	-0-	-0-	(5,082)	-0-	-0-
Net Increase (Decrease) in Cash and Cash Equivalents	93,378	-0-	93,378	(72,313)	-0-	-0-
Cash and Cash Equivalents, Beginning of Year	778,176	-0-	778,176	850,489	-0-	-0-
Cash and Cash Equivalents, End of Year	\$ 871,554	\$ -0-	\$ 871,554	\$ 778,176	\$ -0-	\$ 778,176
Supplemental Disclosure:						
Income taxes paid	\$ 58,000	\$ 0		\$ 75,983	\$ 0	

The accompanying notes are an integral part of these statements.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

1. Form of Organization

Sun City Roseville Community Association, Inc. (the "Association") is a non-profit, mutual benefit corporation organized under the laws of California. The Association's members consist of those persons or entities owning the 3,110 lots within the Sun City Roseville subdivision in Roseville, California. The Association was organized to provide management services and maintenance of certain common use areas and recreation facilities within the subdivision. The Association also exercises architectural control over the lots within the subdivision.

The Association operates and maintains facilities that include two golf courses, clubhouse with a restaurant and bar, fitness center, swimming pools, parks and greenbelts, and tennis courts. Revenues are derived from the use of some of these facilities. Assessments are levied annually against each member's lot in the development. The Association derives over 50% of its revenue from assessments which are levied equally against each member's lot.

The Association's Board of Directors is comprised of seven members elected by Association members. Each director is elected to serve a term of two years, with three directors elected in even-numbered years and four directors elected in odd-numbered years. The Board of Directors, among other things, establishes assessments of members of the Association and establishes fees for the use of Association amenities.

2. Summary of Significant Accounting Policies

- A. The Association's governing documents provide certain guidelines for managing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association. Included in this fund is the emergency reserve and capital improvement savings.

Reserve Fund - Used to account for financial resources designated for future major repairs and major maintenance and replacements. Included in this fund is the special reserve.

Property and Equipment Fund - Used to account for the Association's investment in its common property and equipment.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

- B. Property of the Association includes certain facilities turned over to the Association by the developer in prior years. These facilities include the golf courses, tennis courts, pools, parks and greenbelts, fitness center, recreation center and clubhouse, and certain common land. These assets are reflected in the accounts at the developer's cost basis. Subsequent purchases of property and equipment and improvements to real property are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the related assets ranging from 3 to 40 years. The Association may not transfer its common real property without the approval of 75% of its members.
- C. It is the Association's policy to account for funding and replacement of common area property and equipment with a cost greater than \$5,000 and a useful life greater than 3 years and less than 30 years, and major maintenance, through a reserve fund. Included in the annual lot assessment is a provision, as determined by the Board of Directors, for replacement of these items. The funds are designated for major repairs and replacements. When major repairs or replacements occur, the expenditures are charged against the fund balance or, if certain conditions are met, a transfer is made to the property and equipment fund and the expenditures are capitalized.

The Association determines the required amount of funding for replacement of common areas, in part, using the cash flow method. This method requires preparation of a cash flow forecast. The Association has scheduled estimates for future major repairs and replacements over a 30 year period and has determined the required amount of funding by using the amount of assessments that will keep the reserve fund solvent over a 30 year period.

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to any necessary member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

- D. Inventories are stated at the lower of cost (first-in, first-out method) or market.
- E. Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Accounts receivable at the balance sheet date primarily represent amounts due from members. The Association's collection policy includes, among other things, assessing a late charge and interest, filing a lien, and assessing a lien fee on payments not received within the allowable time periods. The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. An allowance for doubtful accounts is created when an account's collectibility is uncertain. Accounts are written off when the

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

Association's management determines that an account is uncollectible due to an event such as a bankruptcy or foreclosure proceedings.

- F. Deferred revenues primarily represent lot assessments and amenity fees received in the current fiscal year, which apply to the subsequent fiscal year.
  - G. It is the Association's policy to record interest income and the related income tax expense directly to the respective fund holding the investments.
  - H. For state purposes, the Association is taxed as a membership organization. As such, the Association is generally taxed only on non-member income, such as investment earnings, advertising income and gains on sale of assets, at regular state corporate tax rates. For federal purposes, the Association has tax-exempt status as a non-profit organization under Internal Revenue Code 501(c)(4). Unrelated business income earned by the Association, such as newsletter advertising income, is taxed net of related expenses at regular federal corporate tax rates.
  - I. For the purposes of the statements of cash flows, cash is defined as petty cash and amounts held in checking and money market demand accounts.
  - J. The carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.
  - K. The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
3. Concentration of Credit Risk

Financial instruments that potentially subject the Association to credit risk consist principally of members' accounts receivable. Accounts receivable at June 30, 2010 and 2009 are primarily from members whose residence is within the Association.

The Association maintains demand accounts at various banks. At June 30, 2010 and 2009, the aggregate balance of these accounts exceeded the federally insured limits by \$4,732 and \$3,533, respectively. The Association, through its bank, has private insurance for amounts that exceed federally insured limits.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

4. Standby Letter of Credit

The Association has a \$125,000 irrevocable standby letter of credit with UBS Paine Webber outstanding at June 30, 2010. The letter of credit is collateralized by Association deposits held at UBS Paine Webber and expires on May 31, 2011. As of June 30, 2010 and 2009, there was no outstanding balance on the letter of credit.

5. Investments

Association investments consist of dollar per share U.S governmental money market mutual funds, certificates of deposit, municipal securities, and U.S. Treasury securities, and amounted to \$7,151,554 and \$7,689,011 at June 30, 2010 and 2009, respectively. Varying types and levels of safety protection cover the various Association investments, including FDIC insurance, SIPC insurance, privately funded bank insurance, and the backing of the US Treasury and its agencies. Money market mutual funds are classified as available for sale securities and are carried at cost, which approximates fair value. Marketable securities and certificates of deposit are carried at amortized cost (or adjusted cost in the case of Treasury Inflation Protected Securities), as they are classified as held to maturity investments since the Association has the positive intent and ability to hold all securities until maturity. All securities held at June 30, 2010 and 2009 are valued using Level 1 inputs. Level 1 inputs includes quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

The maturities of debt securities and their approximate fair value at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,356,825	\$ 2,369,380	\$3,231,258	\$ 3,246,058
Due in one to five years	2,214,793	2,313,193	2,687,764	2,734,038
Due in six to ten years	2,579,936	2,725,789	1,769,989	1,765,203
	\$ 7,151,554	\$ 7,408,362	\$7,689,011	\$ 7,745,299

During the years ended June 30, 2010 and 2009 there were no sales of investments prior to maturity, although certain callable debt securities were called.

The amortized cost, gross unrealized gains and losses and aggregate fair value at June 30, are as follows:

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
<u>Available for Sale</u>				
Cash	\$ 599,453	\$ -0-	\$ -0-	\$ 599,453
Money Market	119,476	-0-	-0-	119,476
	<u>\$ 718,929</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 718,929</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
<u>Held to Maturity</u>				
Certificate of Deposit	\$ 3,247,878	\$ 79,190	(\$ 1,948)	\$ 3,325,120
Municipal Securities	79,759	261	(5,317)	74,703
Government Securities	3,104,988	184,622	-0-	3,289,610
	<u>\$ 6,432,625</u>	<u>\$ 264,073</u>	<u>(\$ 7,265)</u>	<u>\$ 6,689,433</u>
Carrying Value	<u>\$ 7,151,554</u>			
	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
<u>Available for Sale</u>				
Cash	\$ 1,052,205	\$ -0-	\$ -0-	\$ 1,052,205
Money Market	120,045	-0-	-0-	120,045
	<u>\$ 1,172,250</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,172,250</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
<u>Held to Maturity</u>				
Certificate of Deposit	\$ 3,958,133	\$ 40,936	(\$ 9,670)	\$ 3,989,399
Municipal Securities	89,535	258	(6,595)	83,198
Government Securities	2,469,093	76,596	(45,237)	2,500,452
	<u>\$ 6,516,761</u>	<u>\$ 117,790</u>	<u>(\$ 61,502)</u>	<u>\$ 6,573,049</u>
Carrying Value	<u>\$ 7,689,011</u>			

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

6. Property and Equipment

A summary of Association property and equipment at June 30, 2010 and 2009 is as follows:

	2010	2009
Land	\$ 6,336,305	\$ 6,336,305
Land improvements	15,758,908	15,758,908
Buildings	11,356,862	11,368,899
Furniture and equipment	6,637,658	7,917,303
Vehicles	55,745	55,745
	40,145,478	41,437,160
Less accumulated depreciation	(8,628,159)	(9,689,890)
Construction in progress	973,693	-0-
	\$ 32,491,012	\$31,747,270

7. Income Taxes

The provision for income taxes for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
State	\$ 42,190	\$ 47,702
Federal	607	5,764
	\$ 42,797	\$ 53,466

Federal income tax expense has been reduced in both years by general tax credits available to the Association.

8. Reserve Fund Expenditures

Reserve fund expenditures for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Repairs and maintenance:		
Bridge repair	\$ 2,582	\$ -0-
Paving & parking lot	-0-	19,165
Wood dance floor	-0-	8,237
Painting	51,994	28,935
Reconstruct sediment basin	-0-	47,950
	\$ 54,576	\$ 104,287

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

Property and equipment replacement:

Equipment	\$ 16,533	\$ 455,736
Furniture and fixtures	-0-	42,158
Recreation center	132,199	-0-
Golf course	329,134	354,540
Irrigation	275,900	197,595
Landscape	-0-	30,848
Fences	-0-	8,200
Pro shop	-0-	74,690
	<u>\$ 753,766</u>	<u>\$ 1,163,767</u>

9. Retirement Benefit Plan

The Association maintains a defined contribution benefit plan under Section 401(k) of the Internal Revenue Code. The plan is available to all eligible employees upon completing 3 months of employment. The total amount deferred in any calendar year may not exceed the applicable IRS limit. Each year, the Association may choose to contribute a discretionary matching percentage of employee deferrals. At June 30, 2010 and 2009, the Association matched 100% of employee contributions up to the first 3% of the employee's earnings and 50% of the employee contributions on the next 2%. For the years ended June 30, 2010 and 2009, employer matching contributions are \$44,257 and \$56,484 respectively.

10. Capital Lease Obligation

The Association previously leased equipment under a capital lease agreement which calls for monthly principal and interest payments. The lease expired in March, 2009. The assets are being depreciated over their estimated useful lives. Depreciation of these leases is computed using the straight-line method. At June 30, 2010 and 2009, the total cost of the assets under capital lease agreements was \$6,777. At June 30, 2010 and 2009, depreciation of \$1,130 has been included in depreciation expense for each year, and accumulated depreciation had been recorded of \$2,463 and \$1,333, respectively.

11. Operating Leases

The Association has entered into several non-cancelable operating lease agreements for the use of golf carts and other equipment. Lease rent expense was \$101,731 and \$46,780 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010, future minimum lease payments under such leases are as follows:

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

Year Ending June 30

2011	\$ 51,976
2012	23,686
2013	23,055
2014	2,015
	<u>\$ 101,732</u>

12. Commitments

The Association has entered into various contracts with outside companies to provide services such shuttle service. The remaining non-cancelable amount on this contract is approximately \$17,000 at June 30, 2010.

13. Landscape Settlement

The Association settled a construction defect lawsuit against the developer during the year ended June 30, 2006. Under the terms of the settlement agreement, the Association received \$2,100,000.

The settlement was recorded as reserve fund revenue for the year ended June 30, 2006. The proceeds received from the settlement have been deposited in a separate investment account and are being accounted for in the special reserve fund, which is part of the reserve fund.

Cash activity in the fund follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 346,513	\$ 941,566
Interest credited	4,120	19,152
Transfer of interest to capital improvement account	-0-	(18,724)
Transfer to reserve fund	(24,856)	(595,481)
Balance at end of year	<u>\$ 325,777</u>	<u>\$ 346,513</u>

14. Members' Assessment 2010-2011

The Association's Board of Directors has approved a regular assessment of \$1,644 per lot (\$137 per month) for the year ending June 30, 2011. Total member's assessments are \$5,114,272, of which \$865,743 will be allocated to the reserve fund.

SUN CITY ROSEVILLE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

15. Operating Fund Balance Components

The components of the Operating Fund balance as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Capital improvement savings	\$ 114,476	\$ 766,662
Operating emergency account	401,348	400,000
Operating surplus	<u>63,267</u>	<u>161,743</u>
	<u>\$ 579,091</u>	<u>\$ 1,328,405</u>

16. Litigation

From time to time, certain claims arising in the ordinary course of business are filed against the Association. The Association has vigorously defended these claims. Currently no litigation exists.

17. Subsequent Events

Subsequent events have been evaluated through August 25, 2010, the date that the statements were available for issuance.

# McCLINTOCK ACCOUNTANCY CORPORATION

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## INDEPENDENT AUDITORS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

To the Board of Directors of  
Sun City Roseville Community Association, Inc.

The required supplementary information on future major repairs and replacements on page 15 is not a required part of the basic financial statements of Sun City Roseville Community Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*McClintock Accountancy Corporation*

McCLINTOCK ACCOUNTANCY CORPORATION

Tahoe City, California

August 25, 2010

REQUIRED SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS

June 30, 2010

(Unaudited)

(See Independent Auditors' Report on Required Supplementary Information)

The Association' updated a study in 2010 to estimate the remaining useful lives, the lives after replacement, and the replacement costs of the components of common property. The estimates were based on management's and contractors' estimates and historical costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 3.5% inflation factor.

The Association does not designate the balance of the reserve fund by component. The total amount available for major repairs and replacements as of June 30, 2010 is \$6,253,414. The 2010-2011 budget includes \$865,743 of assessments allocated to the reserve fund, plus \$183,742 of investment earnings.

The Association has not included items with a useful life of greater than thirty years as a component of the reserve study, such as the structural components of Association buildings. As a result of these assets not being included, the estimated current replacement cost of \$10,336,237 may be understated. Since the study to estimate the future cost of these items has not been completed, the amount of any understatement cannot be reasonably estimated.

The Association's policy is to fund for the assets included in the reserve, including inflation at 3.5% per year, prorated over the remaining useful lives of the assets. For further information and discussion, including the use of the cash flow method for determining funding amounts, see Note 2 (c) in the accompanying financial statements.

The following table is based on the study and presents significant information about the components of common property.

Department/Component	Range of Remaining Lives (Years)	Range of Lives After Replacement (Years)	Current Replacement Costs
Equipment	0-16	5-30	\$ 4,094,390
Golf course	1-13	5-20	146,965
Golf course irrigation	0-28	10-30	1,809,034
Fences and walls	2-28	15-30	271,800
Floor coverings	0-15	5-30	348,203
Furniture & fixtures	0-9	5-23	809,567
Landscape	10-13	12-15	133,615
Paint	0-8	2-10	99,795
Paving	0-8	2-22	446,673
Pool	0-8	5-12	189,617
Roofing	5-15	20-30	487,709
Wall coverings	5-16	20-30	123,901
Miscellaneous	1-26	6-30	1,374,968
			<u>\$ 10,336,237</u>