

Financial Statements

SUN CITY SHADOW HILLS
COMMUNITY ASSOCIATION

DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Sun City Shadow Hills Community Association
Indio, California

Report on the Financial Statements

We have audited the financial statements of Sun City Shadow Hills Community Association, as of December 31, 2017 and 2016 which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in fund balance 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors and Members
Sun City Shadow Hills Community Association
Indio, California

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sun City Shadow Hills Community Association as of December 31, 2017 and 2016, 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 of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of departmental revenue and expenses on pages 13 - 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on page 15 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.



Palm Springs, California

February 22, 2018

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

BALANCE SHEETS

DECEMBER 31, 2017 AND 2016

	<u>ASSETS</u>		<u>TOTALS</u>	
	Operating	Replacement		
	Fund	Fund	2017	2016
ASSETS				
Cash and cash equivalents	\$ 2,072,045	\$ 996,018	\$ 3,068,063	\$ 1,790,917
Certificates of deposit	-	7,871,000	7,871,000	9,315,000
Investments	-	2,424,100	2,424,100	1,874,349
Accounts receivable, net of allowance for doubtful accounts of \$108,000 in 2017 and \$136,400 in 2016	132,109	-	132,109	29,039
Interest receivable	-	28,276	28,276	30,013
Other receivables, net of allowance for doubtful accounts of \$96,000 in 2017 and \$91,227 in 2016	151,418	-	151,418	90,550
Inventories	108,703	-	108,703	112,539
Prepaid expenses and deposits	144,321	-	144,321	450,350
Inter-fund receivable/(payable)	22,310	(22,310)	-	-
Property and equipment, net	655,535	-	655,535	768,124
Other assets - Liquor License	24,337	-	24,337	24,337
Cash - chartered clubs	177,456	-	177,456	169,938
	<u>\$ 3,488,234</u>	<u>\$ 11,297,084</u>	<u>\$ 14,785,318</u>	<u>\$ 14,655,156</u>

LIABILITIES AND FUND BALANCES

LIABILITIES				
Accounts payable	\$ 76,211	\$ -	\$ 76,211	\$ 164,135
Accrued payroll and related	334,112	-	334,112	669,918
Accrued expenses	730,898	87,550	818,448	909,235
Deferred revenue	322,620	-	322,620	306,787
Assessments received in advance	293,925	-	293,925	195,487
Capital lease payable	193	-	193	62,585
	<u>1,757,959</u>	<u>87,550</u>	<u>1,845,509</u>	<u>2,308,147</u>
FUND BALANCES				
Operating	897,284	-	897,284	(229,814)
Chartered clubs	177,456	-	177,456	169,938
Property and equipment	655,535	-	655,535	768,124
Replacement	-	11,209,534	11,209,534	11,638,761
	<u>1,730,275</u>	<u>11,209,534</u>	<u>12,939,809</u>	<u>12,347,009</u>
	<u>\$ 3,488,234</u>	<u>\$ 11,297,084</u>	<u>\$ 14,785,318</u>	<u>\$ 14,655,156</u>

The accompanying notes are an integral part of these financial statements.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Totals
REVENUES			
Assessments	\$ 8,694,000	\$ 1,862,992	\$ 10,556,992
Golf	2,305,834	-	2,305,834
Food and beverage	1,103,732	-	1,103,732
Newsletter and advertising	150,957	-	150,957
Rental income	11,242	-	11,242
Vendor gate access	99,300	-	99,300
Interest	886	216,347	217,233
Developer settlement	-	300,000	300,000
Other income	290,546	5,855	296,401
Chartered club activities, net	7,518	-	7,518
	12,664,015	2,385,194	15,049,209
EXPENSES			
Golf	3,901,649	-	3,901,649
Food and beverage	1,410,078	-	1,410,078
Community:			
Salaries and related	2,708,363	-	2,708,363
Landscape	956,230	-	956,230
Security	1,045,049	-	1,045,049
Maintenance	580,983	-	580,983
Management fee	119,400	-	119,400
Utilities	437,043	-	437,043
Professional fees	144,039	-	144,039
Insurance	168,386	-	168,386
Administrative and general	252,108	-	252,108
Newsletter	153,804	-	153,804
Recreation	106,696	-	106,696
Fitness	148,973	-	148,973
Depreciation	34,314	-	34,314
Capital expenditure expenses	21,821	-	21,821
Common area improvements	2,947	-	2,947
Federal income tax	-	31,872	31,872
State income tax	-	10,752	10,752
Replacement fund expenditures	-	2,221,902	2,221,902
	12,191,883	2,264,526	14,456,409
Excess of revenues over expenses	\$ 472,132	\$ 120,668	\$ 592,800
FUND BALANCES, beginning of the year	\$ 708,248	\$ 11,638,761	\$ 12,347,009
Excess of revenues over expenses	472,132	120,668	592,800
Inter-fund transfers	549,895	(549,895)	-
FUND BALANCES, end of the year	\$ 1,730,275	\$ 11,209,534	\$ 12,939,809

The accompanying notes are an integral part of these financial statements.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Totals
REVENUES			
Assessments	\$ 7,281,217	\$ 1,701,133	\$ 8,982,350
Golf	2,199,388	-	2,199,388
Food and beverage	839,765	-	839,765
Newsletter and advertising	96,120	-	96,120
Rental income	15,819	-	15,819
Vendor gate access	100,762	-	100,762
Interest	1,548	172,351	173,899
Other income	214,278	-	214,278
Chartered club activities, net	5,919	-	5,919
	<u>10,754,816</u>	<u>1,873,484</u>	<u>12,628,300</u>
EXPENSES			
Golf	3,718,320	-	3,718,320
Food and beverage	1,092,650	-	1,092,650
Community:			
Salaries and related	2,529,321	-	2,529,321
Landscape	757,638	-	757,638
Security	1,084,529	-	1,084,529
Maintenance	501,359	-	501,359
Management fee	119,400	-	119,400
Utilities	483,167	-	483,167
Professional fees	172,210	-	172,210
Insurance	157,892	-	157,892
Administrative and general	369,052	-	369,052
Newsletter	152,236	-	152,236
Recreation	88,169	-	88,169
Fitness	66,980	-	66,980
Depreciation	40,314	-	40,314
Capital expenditure expenses	110,711	-	110,711
Common area improvements	421,774	-	421,774
Federal income tax	-	21,146	21,146
State income tax	-	6,030	6,030
Replacement fund expenditures	-	1,252,896	1,252,896
	<u>11,865,722</u>	<u>1,280,072</u>	<u>13,145,794</u>
Excess (deficiency) of revenues over expenses	<u>\$ (1,110,906)</u>	<u>\$ 593,412</u>	<u>\$ (517,494)</u>
FUND BALANCES, beginning of the year	\$ 1,809,990	\$ 11,054,513	\$ 12,864,503
Excess (deficiency) of revenues over expenses	(1,110,906)	593,412	(517,494)
Inter-fund transfers	9,164	(9,164)	-
FUND BALANCES, end of the year	<u>\$ 708,248</u>	<u>\$ 11,638,761</u>	<u>\$ 12,347,009</u>

The accompanying notes are an integral part of these financial statements.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Operating Fund	Replacement Fund	TOTALS	
			2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	\$ 472,132	\$ 120,668	\$ 592,800	\$ (517,494)
Adjustments to reconcile change in net assets to net cash from operating activities:				
Depreciation expense	294,437	-	294,437	152,575
Allowance for bad debts	-	-	-	141,727
Loss on disposal of property and equipment	-	-	-	29,034
(Increase) decrease in assets:				
Accounts receivable	(103,070)	-	(103,070)	(103,327)
Interest receivable	-	1,737	1,737	6,952
Developer receivable	-	-	-	21,700
Other receivable	(60,868)	-	(60,868)	(38,856)
Inventories	3,836	-	3,836	(4,568)
Prepaid expenses and deposits	306,029	-	306,029	(511)
Inter-fund receivable/(payable)	(221,053)	221,053	-	-
Increase (decrease) in liabilities:				
Accounts payable	(87,923)	-	(87,923)	(387,808)
Accrued payroll and related	(335,806)	-	(335,806)	402,641
Accrued expenses	(178,337)	87,550	(90,787)	605,644
Deferred revenue	15,833	-	15,833	167,614
Assessments received in advance	98,438	-	98,438	42,263
Net cash provided by operating activities	203,648	431,008	634,656	517,586
CASH FLOWS FROM INVESTING ACTIVITIES				
Net sales / (purchases) of certificates of deposit	-	1,444,000	1,444,000	(466,000)
Net sales / (purchases) of investments	-	(549,751)	(549,751)	50,262
Purchase of property and equipment	(181,848)	-	(181,848)	(582,987)
Net cash provided (used) by investing activities	(181,848)	894,249	712,401	(998,725)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash designated for chartered clubs	(7,518)	-	(7,518)	(5,919)
Payments on capital leases	(62,393)	-	(62,393)	(58,983)
Inter-fund transfers	549,895	(549,895)	-	-
Net cash provided (used) by financing activities	479,984	(549,895)	(69,911)	(64,902)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	501,784	775,362	1,277,146	(546,041)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,570,261	220,656	1,790,917	2,336,958
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,072,045	\$ 996,018	\$ 3,068,063	\$ 1,790,917
SUPPLEMENTAL INFORMATION				
Cash paid during the year for interest	\$ 5,243	\$ -	\$ 5,243	\$ 5,633
Cash paid during the year for income taxes	\$ -	\$ 5,290	\$ 5,290	\$ 36,665

The accompanying notes are an integral part of these financial statements.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Sun City Shadow Hills Community Association is a statutory homeowner's association organized as a non-profit mutual benefit corporation in July 2003, for purposes of maintaining and preserving common property within the development. The development consisted of 3,450 residential units at December 31, 2017 located in Indio, California.

Accounting Method

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, the chartered clubs, and for the property and equipment.

Major Repairs and Replacements Fund - This fund is used to accumulate financial resources designed for future major repairs and replacements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association generally considers certificates of deposit and all highly liquid debt instruments to be cash equivalents.

Investments

Investments consist of United States government securities and Municipal bonds and are considered to be held to maturity and stated at cost, which approximates market value.

Inventory

Inventories are stated at the lower of cost or market using the average costing method.

Assessments Received in Advance

Assessments received in advance are treated as a current liability. The amounts are recognized as income in the appropriate period.

Reclassifications

Certain reclassifications were made to the 2016 balance sheet and expense accounts that provide more detail to be in conformity with the 2017 presentation. There was no effect on the 2016 income or fund balance as a result of these reclassifications.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Common Area Property

Real property and common areas acquired from the developer and related improvements to the Association property are not recognized as assets, in conformity with industry standards. Expenditures for major repairs and replacements are accounted for as replacement fund expenditures for purposes of financial reporting.

Property and Equipment

Purchased personal property and equipment are stated at cost. All assets are depreciated using the straight-line method over the estimated useful lives of the various classes of assets. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is computed over the following estimated useful lives:

Vehicles and equipment	5 years
Furniture and office equipment	5-7 years

Income Taxes

The Association is classified as a nonexempt membership organization for both Federal and California income tax purposes for the years ended December 31, 2017 and 2016. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

For Federal tax purposes, the Association is taxed on all net income from non-membership activities reduced only by losses from non-membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses, and excess membership deductions may be carried forward to offset membership income of future periods. Any net membership income not applied to the subsequent year is subject to taxation. The Association files Form 1120, which had graduated effective tax rates of 15% to 35% that are applied to net taxable income.

For California tax purposes, the Association also is taxed on all net income from non-membership activities reduced only by losses from membership activities for which a profit motive exists. Non-membership income may not be offset by membership losses. Any net membership income is not subject to taxation. The tax rate that is applied to net taxable income is 8.84%.

The Association's policy is to record income tax related interest and penalties in the replacement fund expenses. For the year ended December 31, 2017, there was no interest or penalties expense recorded and no accrued interest or penalties.

Management has considered its tax positions and believes that the positions taken by the Association on its Federal and State tax returns are more likely than not to be sustained upon examination. The Association's Forms 1120, US Corporation Tax Returns, are subject to examination by the IRS, generally for three years after they are filed. The Association's Forms 100, Corporation Franchise or Income Tax Returns and Forms 199, California Exempt Organization Annual Information Return, are subject to examination by the Franchise Tax Board, generally for four years after they are filed.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses, including the allowance for doubtful accounts. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Concentration of Credit Risk

The Association maintains its cash balances and investments in a commercial brokerage firm and a commercial bank. The Association invests in a variety of money funds and certificates of deposit. The balances in the accounts are insured by the FDIC up to \$250,000. Given the existing size of the Association operations, it is not unusual for this limit to be exceeded on a periodic basis, however the Association is covered for any excess amounts over the FDIC limit under a surety bond held by the Association's management company.

Subsequent Events

Subsequent events have been evaluated through February 22, 2018, which is the date the financial statements were available to be issued.

NOTE 1: OWNERS' ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to paying assessments to fund the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Monthly assessments to owners for the years ended December 31, 2017 were \$255 in 2017 and \$217 in 2016. Of those amounts, \$45 in 2017 and \$41 in 2016 was designated to the replacement fund. Accounts receivable represents assessments and other fees due from owners. The Association's governing documents provide for various collection remedies for delinquent assessments, including liens on the owner's unit, foreclosing on the unit owner, or obtaining a judgment on other assets of the unit owner. The Association uses the allowance method for estimating uncollectible assessments.

The annual budget and owner's assessments are determined by the Board of Directors. If the Association has any excess operating funds at the end of the operating year, it retains the funds for use in future periods.

NOTE 2: INVENTORY

Inventories at December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Food and beverage	\$ 27,856	\$ 25,564
Golf shop merchandise	<u>80,847</u>	<u>89,975</u>
	<u>\$108,703</u>	<u>\$112,539</u>

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 3: PROPERTY AND EQUIPMENT

The following is a summary of property and equipment at December 31, 2017 and 2016:

	2017	2016
Vehicles, golf carts and equipment	\$1,252,861	\$1,111,106
Furniture and office equipment	268,320	228,147
	1,521,181	1,339,253
Less accumulated amortization and depreciation	(865,646)	(571,129)
	\$ 655,535	\$ 768,124

NOTE 4: INVESTMENTS

The Association's investments consisted of the following at December 31, 2017 and 2016:

	2017	2016
United States government securities	\$ 2,374,100	\$ 1,794,349
Municipal bonds	50,000	80,000
	\$ 2,424,100	\$ 1,874,349

Investments are classified as held to maturity and are reported at amortized cost. The market value of these investments was \$2,379,791 and \$1,783,418 at December 31, 2017 and 2016, respectively.

NOTE 5: CAPITAL LEASE PAYABLE

The Association entered into a capital lease in January 2013 and January 2017 for the purchase of golf course equipment expiring in January 2018. The asset and liability under this capital lease is recorded at the fair value of the assets. The assets are being depreciated over their estimated useful lives. Depreciation of the assets under the capital lease is included in depreciation expense for 2017 and 2016.

The following is a summary of property held under the capital lease at December 31, 2017 and 2016:

	2017	2016
Vehicles and equipment	\$ 393,412	\$ 280,306
Less: accumulated depreciation	(302,927)	(224,245)
	\$ 90,485	\$ 56,061

Minimum future lease payments under the capital lease as of December 31, 2017 are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 203
Less: Amount representing interest	(10)
Present value of net minimum lease payments	\$ 193

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 6: OPERATING LEASES

The Association leases various pieces of golf equipment, which expired in January 2017. The Association also leased golf carts of which all were returned in 2016 and the leases ended.

There were no future minimum future rental payments due under these leases as of December 31, 2017.

The total rent expense on the above operating leases was \$0 for the year ended December 31, 2017 and \$216,419 for the year ended December 31, 2016.

NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements of personal property and common area real property improvements. Accumulated funds are held in separate cash and investment accounts and are generally not available for expenditures for normal operations.

In October 2017, the Association engaged an outside consultant to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property, including property and equipment. The study is based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 2.0 percent and interest of 1.75 percent, on amounts funded for future major repairs and replacements. The table included on page 15 in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Board is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the budgeted funding requirement of \$1,966,086 has been included in the 2018 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for future major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to pass special assessments, or delay future major repairs and replacements until funds are available.

NOTE 8: INTER-FUND TRANSFERS

Inter-fund transfers consist of \$549,895 in 2017 and \$9,164 in 2016 of property and equipment purchased by the replacement fund and capitalized in the operating fund.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NOTE 9: CHARTERED CLUB FUNDS

The Association chartered various Clubs, which generate revenue and expenses for their membership, all of whom are members of the Association. The Association maintains control over the Clubs, while providing facilities, insurance and administrative services. The Clubs provide their own banking and bookkeeping functions.

	<u>2017</u>	<u>2016</u>
Cash, beginning of the year	\$ 169,938	\$ 164,019
Revenue for the year	455,657	445,656
Expenses for the year	<u>(448,139)</u>	<u>(439,737)</u>
Excess of revenues over expenses for the year	<u>7,518</u>	<u>5,919</u>
Cash, end of the year	<u>\$ 177,456</u>	<u>\$ 169,938</u>

NOTE 10: FINANCIAL DISCREPANCY

In August 2017, the Association and its management company, Desert Resort Management, Inc. (DRM), became aware of irregularities in financial transactions. DRM reported the apparent theft to the police and Riverside County District Attorney's offices. The Association and DRM agreed to an internal audit conducted by DRM at its cost, as well as a subsequent independent review of that audit, which resulted in evidence of financial improprieties in the amount of \$123,061. DRM has agreed to compensate the Association for its losses. The Association has recorded a receivable from DRM in the amount of \$123,061 as of December 31, 2017 which is included in other receivables. This is not the final settlement amount, but rather the total amount of misappropriated funds discovered through the investigation of applicable transactions. It is anticipated by the parties that a formal settlement agreement will be executed after the investigation is completed.

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

**SUPPLEMENTARY INFORMATION
DEPARTMENTAL REVENUE AND EXPENSES**

GOLF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
REVENUE		
Memberships	\$ 81,259	\$ 40,086
Greens fees	1,859,560	1,803,499
Pro shop sales	166,247	179,954
Cart, range and other income	198,768	176,849
Total revenue	2,305,834	2,199,388
EXPENSES		
Cost of sales - Proshop	123,148	134,831
Salaries and wages	1,346,700	1,291,420
Payroll taxes and related	313,295	333,178
Employee relations	48,089	31,052
Marketing and loyalty program	148,924	20,856
Landscape and golf course maintenance	54,197	51,728
Equipment and supplies	889,788	792,780
Utilities	393,962	361,587
Leases - carts and maintenance equipment	(3,315)	216,419
Management fee	132,500	143,750
Administrative and other	98,854	113,167
Property taxes	333	5,847
Insurance expense	89,808	51,439
Interest expense	5,243	5,633
Bad debt expense	-	23,338
(Gain) Loss on disposal of property and equipment	-	29,034
Depreciation	260,123	112,261
Total expenses	3,901,649	3,718,320
NET GOLF OPERATIONS (DEFICIENCY) OVER REVENUES	\$ (1,595,815)	\$ (1,518,932)

SUN CITY SHADOW HILLS COMMUNITY ASSOCIATION

SUPPLEMENTARY INFORMATION
DEPARTMENTAL REVENUE AND EXPENSES

FOOD AND BEVERAGE OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
REVENUE		
Food	\$ 817,349	\$ 604,128
Beverage	259,729	217,074
Group services	26,654	18,563
Total revenue	<u>1,103,732</u>	<u>839,765</u>
EXPENSES		
Cost of sales	426,283	319,366
Salaries and wages	686,860	506,627
Payroll taxes and related	172,957	139,508
Marketing	18,449	19,154
Repairs and maintenance	6,423	7,541
Operating expenses	89,313	97,293
Equipment leases	3,047	1,041
Fees, permits, and licenses	6,746	2,120
Total expenses	<u>1,410,078</u>	<u>1,092,650</u>
NET FOOD AND BEVERAGE (DEFICIENCY) OVER REVENUES	<u>\$ (306,346)</u>	<u>\$ (252,885)</u>

ITY SHADOW HILLS COMMUNITY ASSOCIATION

SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2017

(UNAUDITED)

In October 2017, the Association engaged an outside consultant to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property, including property and equipment. The study is based on current estimated replacement costs. Funding requirements consider an annual inflation rate of 2.0 percent and interest of 1.75 percent on amounts funded for future major repairs and replacements.

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

Components	Estimated Current Replacement Costs	Estimated Remaining Useful Lives (Years)	2018 Funding Requirements
Access Systems/Gatehouses	\$ 1,201,024	0 - 30	\$ 68,606
Asphalt & Concrete	13,529,390	0 - 30	542,945
Emergency Preparedness	60,941	0 - 21	2,523
General Common Area	2,516,248	0 - 30	197,024
Golf Course Buildings - Cart Barn	79,870	1 - 26	3,632
Golf Course Buildings - General	217,358	0 - 27	14,047
Golf Course Buildings - Maintenance	98,330	1 - 26	5,141
Golf Course Buildings - Mechanical	155,750	1 - 13	12,749
Golf Course Buildings - Pro Shop	128,450	0 - 27	9,744
Golf Course Buildings - Restaurant	601,560	0 - 26	38,245
Golf Course Buildings - Snack Bar	103,798	0 - 27	6,949
Golf Course - North	2,304,763	0 - 23	158,440
Golf Course - South	8,006,947	1 - 29	424,706
Golf Courses - General	109,450	0 - 14	7,801
Maintenance - Building	64,100	3 - 25	1,780
Maintenance - Custodial Equipment	20,450	1 - 7	1,738
Maintenance - Facilities	303,222	0 - 18	20,327
Maintenance - Housekeeping	4,235	4	246
Montecito - Clubhouse - Exterior	673,790	0 - 29	32,978
Montecito - Clubhouse - Interior	2,080,546	0 - 29	152,281
Montecito - HOA Office	84,060	0 - 23	4,158
Montecito - Mechanical	779,920	1 - 10	61,311
Montecito - Pools & Spas	390,360	0 - 19	26,764
Montecito - Sports Courts	215,101	0 - 30	13,520
Paint	704,496	1 - 12	47,753
Santa Rosa - Clubhouse - Exterior	389,527	3 - 28	17,065
Santa Rosa - Clubhouse - Interior	831,708	0 - 19	46,301
Santa Rosa - Mechanical	259,130	5 - 23	13,517
Santa Rosa - Pools & Spas	193,347	0 - 23	18,106
Santa Rosa - Sports Courts	221,355	0 - 23	9,678
Taxes	-	-	6,011
	\$ 36,329,226		\$ 1,966,086