

**SUN CITY VISTOSO
COMMUNITY ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
For the years ended June 30, 2011 and 2010**

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Sun City Vistoso Community Association, Inc.
Oro Valley, Arizona

We have audited the accompanying statements of financial position of Sun City Vistoso Community Association, Inc. as of June 30, 2011 and 2010, and the related statements of activities 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 of America. 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 Vistoso Community Association, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information on page 10 not a required part of the financial statements of Sun City Vistoso Community Association, Inc., but is supplementary information required by the American Institute of Certified Public Accountants. We did not audit the information and express no opinion on it.


DEVRIES CPAS OF ARIZONA, P.C.

October 12, 2011

Integrity is the highest form of service.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,803,550	\$ 2,592,323
Certificates of deposit held at banks	489,085	245,000
Investments - Note 8	1,614,624	1,790,383
Interest receivable	3,871	5,131
Accounts receivable	13,807	14,175
Inventories	39,604	38,155
Prepaid expenses and other assets	152,204	22,835
Total current assets	5,116,745	4,708,002
Common property - Note 3	13,973,013	14,629,153
	\$ 19,089,758	\$ 19,337,155

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 160,076	\$ 112,069
Accrued payroll and related expenses	104,547	176,092
Deferred income	2,364,669	3,076,031
Other accrued expenses	43,396	43,543
Total current liabilities	2,672,688	3,407,735
Unrestricted net assets:		
Undesignated:		
Operations	303,742	282,739
Investment in common property	13,973,013	14,629,153
	14,276,755	14,911,892
Designated:		
Asset reserves and capital funds - Notes 4 and 5	1,868,697	782,525
Contingency fund	231,831	195,053
Community assistance committee fund	16,435	18,200
Friends of the library fund	23,352	21,750
	16,417,070	15,929,420
	\$ 19,089,758	\$ 19,337,155

See Accompanying Notes.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES
For the years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Membership fees	\$ 3,868,840	\$ 3,727,024
Capital contribution fee	180,209	142,424
Golf revenues	1,220,105	1,226,969
Donations	2,175	67,475
Café	580,221	526,689
Activities	183,405	178,274
Advertising revenue	144,312	132,365
Investment income - Note 6	43,892	16,852
Other income	86,034	73,354
Gain (loss) on sale of assets	1,429	(8,763)
Total revenues	<u>6,310,622</u>	<u>6,082,663</u>
Expenses:		
Program:		
Activities	558,757	577,538
Maintenance	677,037	705,552
Golf course	1,314,985	1,306,604
Pro shop	252,742	243,391
Café	573,434	528,841
Common area maintenance	442,225	421,480
Depreciation	1,050,320	1,002,875
Other	17,495	41,668
Administration	935,977	807,545
Total expenses	<u>5,822,972</u>	<u>5,635,494</u>
Change in unrestricted net assets	487,650	447,169
Unrestricted net assets at beginning of year	<u>15,929,420</u>	<u>15,482,251</u>
Unrestricted net assets at end of year	<u>\$ 16,417,070</u>	<u>\$ 15,929,420</u>

See Accompanying Notes.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in unrestricted net assets	\$ 487,650	\$ 447,169
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,050,320	1,002,875
(Gain) loss on sale of assets	(1,429)	8,763
Unrealized (gain) loss on investments	(16,641)	8,997
(Increase) decrease in operating assets:		
Interest receivable	1,260	(710)
Accounts receivable	368	(12,775)
Due from Sun City Vistoso Foundation	0	1,060
Inventories	(1,449)	1,032
Prepaid expenses and other assets	(129,369)	14,616
Increase (decrease) in operating liabilities:		
Accounts payable	48,006	35,604
Accrued payroll and related expenses	(71,544)	5,208
Deferred income	(711,362)	(20,200)
Other accrued expenses	(147)	(4,734)
Less capital contribution fee	(180,209)	(142,424)
Net cash provided by operating activities	475,454	1,344,481
Cash flows from investing activities:		
Purchases of common property	(396,081)	(1,517,329)
Proceeds from sale of assets	3,330	4,895
Purchases of investments	(2,837,600)	(5,100,000)
Sales and maturities of investments	3,030,000	4,180,000
Proceeds from maturity of certificates of deposit held at banks	247,258	0
Purchases of certificates of deposit held at banks	(491,343)	(245,000)
Net cash (used in) investing activities	(444,436)	(2,677,434)
Cash flows provided by financing activities -		
Capital contribution fees	180,209	142,424
Change in cash and cash equivalents	211,227	(1,190,529)
Cash and cash equivalents at beginning of year	2,592,323	3,782,852
Cash and cash equivalents at end of year	\$ 2,803,550	\$ 2,592,323

Supplemental cash flow information

No cash paid for interest or income taxes in 2011 or 2010.

See Accompanying Notes.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 1 - Organization

Sun City Vistoso Community Association, Inc. (Association) is a nonprofit common interest realty association which was incorporated in January 1987. The Association was organized to provide for the management, maintenance and care of the common property. Membership in the Association is limited to the homeowners or residents of the 2,488 units of Sun City Vistoso who meet certain qualifications.

NOTE 2 - Summary of significant accounting policies

Designation of net assets

The Association utilizes accrual basis accounting as the most appropriate method of accounting for its resources and operations and to reflect its fiduciary and operating responsibilities. The Association follows the guidance prescribed by the American Institute of Certified Public Accountants' (AICPA) Guide for Common Interest Realty Associations. Financial resources are classified for accounting and reporting purposes in the following net asset classifications established according to their nature and purpose:

Undesignated net assets – This fund is used to account for financial resources available for the general operations of the Association and land, buildings and equipment.

Asset reserve fund – Used to accumulate financial resources designated for future major repairs and replacements.

Capital fund – For the purchase or improvement of real property in Sun City.

Contingency fund – This fund is used to accumulate financial resources designated for legal fees, as a reserve for unexpected loss contingencies and for other uses as designated by the Board of Directors.

Community assistance committee fund – This is an advisory committee of the Board of Directors designed to loan medical equipment for use by residents and miscellaneous equipment to residents for use by visiting friends and family at no charge. The committee raises necessary monies to fund the purchases of equipment.

Friends of the library fund – Acting on behalf of the Board of Directors the Friends of the Library raise funds which are applied to improvements in the library.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with an original maturity of three months or less. The Association maintains its operating cash in bank deposit accounts which, for short periods of time, may exceed federally insured limits. Uninsured cash at June 30, 2011 was \$660,523.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011 and 2010

NOTE 2 - Summary of significant accounting policies - continued

Investments

Investments consist of certificates of deposit which are valued at fair market value. The certificates have various maturities laddered out for use according to a Board adopted asset reserve plan.

Certificates of deposit held at banks

Certificates of deposit held at banks bear interest ranging from 0.7% to 1.15% at June 30, 2011 and at 0.92% at June 30, 2010, and have a maturity of 1 year, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Inventories

Inventories, which consist primarily of golf merchandise, café food and beverages are stated at the lower of cost (specific identification method) or market.

Land, buildings and equipment

Purchases of land, buildings and equipment in excess of \$1,000 are recorded at cost. Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The Association capitalizes all land, building and equipment purchases that have an estimated useful life greater than one year.

Deferred income

The Association collects member dues and certain golf course fees in advance. These fees are reflected in operating revenue ratably over the period to which they apply.

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(4) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose may be subject to taxation as unrelated business income.

During the years ended June 30, 2011 and 2010, the Association's unrelated business taxable income did not exceed related expense; therefore, the accompanying financial statements contain no provision for income taxes. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 740-10 (ASC 740-10), the Association has not taken uncertain tax positions and, therefore, has no policy for evaluating them. The Association's Form 990, *Return of Organization Exempt from Income Tax*, Form 990-T, *Exempt Organization Business Income Tax Return*, Arizona Form 99, *Arizona Exempt Organization Annual Information Return*, and Form 99-T, *Arizona Exempt Organization Business Income Tax Return*, are generally subject to examination by the IRS for four years after the date filed.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011 and 2010

NOTE 3 – Common property

Major classifications of land, buildings and equipment are summarized below:

	2011	2010
Land and improvements	\$ 9,190,259	\$ 9,038,860
Buildings and improvements	10,654,202	10,469,953
Equipment	4,092,665	3,937,350
	23,937,126	23,446,163
Less accumulated depreciation	(9,972,646)	(9,025,019)
Construction in progress	8,533	208,009
	\$ 13,973,013	\$ 14,629,153

The Association holds title to common real property consisting of a golf course on 180 acres of land, sidewalks and other common areas, four recreation centers, a restaurant, pro-shop and craft center on 12 acres of land. The Association is responsible for preserving and maintaining the properties. In conformity with industry practice, the Association recognizes the following common property as assets:

- (a) Common personal property
- (b) Common real property to which it has title

Accordingly, the Association recognized the acquisition of the above properties and the land on which they are built as assets at their fair values in December 1987, the date on which they were transferred from Del Webb Communities. Other common property which has been transferred from Del Webb Communities subsequent to December 1987, consisting of approximately 3.5 acres of land that is the site of a recreation center and various peripheral land including drainage and buffer areas have not yet been recognized as assets.

NOTE 4 – Asset reserve fund additions

The annual membership fee includes \$381.83 per member for both of the years ended June 30, 2011 and 2010, which is designated by the Board of Directors for future fixed asset costs. The fees amounted to \$950,000 for both of the years ended June 30, 2011 and 2010.

NOTE 5 – Future asset replacements

The Association's governing documents allow funds to be accumulated for future major repairs and asset replacements. Accumulated funds are held in cash and investment accounts and generally are not available for expenditures for normal operations. The breakdown of the capital fund and asset reserve fund was the following at June 30, 2011 and 2010:

	2011	2010
Capital fund (deficit)	\$ 44,577	\$ (344,115)
Asset reserve fund	1,824,120	1,126,640
	\$ 1,868,697	\$ 782,525

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - continued
 June 30, 2011 and 2010

NOTE 5 – Future asset replacements – continued

Association Reserves, Inc., an independent reserve study company, conducted a study in March 1996 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements considered an annual inflation rate of 3% and interest of 5.4%, net of taxes, on amounts funded for future major repairs and replacements.

Beginning with the year ended June 30, 2003, Association staff maintain and update the schedule annually to reflect new assets acquired by the Association in that year, and any specific adjustments needed to reflect more accurately the condition and anticipated replacement of existing assets. This internal update considers an annual inflation rate and interest rate of 3% each. The table included in the supplementary information on future major repairs and replacements is based on the study and the annual updates to the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, a funding requirement of \$950,000 has been included in both the 2011/12 and 2010/11 budgets.

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

NOTE 6 – Investment income

Investment income consisted of the following at June 30, 2011 and 2010:

	2011	2010
Interest and dividends	\$ 27,251	\$ 25,849
Unrealized gains (losses)	16,641	(8,997)
	\$ 43,892	\$ 16,852

NOTE 7 – Retirement savings plan

The Association implemented a Retirement Savings Plan (the Plan) on August 1, 1990. The Plan is intended to qualify under Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees are qualified to participate in the Plan once they have worked six months for the Association. Under the Plan, an employee may elect a pre-tax deferral of up to 15% of the employee's pre-tax compensation subject to the ERISA specified annual maximum.

The Association contributed up to a maximum deferral of 5% of the employee's compensation for each dollar of elective deferrals made and not withdrawn by the employee during the plan year. The total amount contributed by the Association during the years ended June 30, 2011 and 2010 was \$56,678 and \$52,788, respectively.

The vested portion of an employee's account may be paid out upon termination of employment, at the employee's election, as soon as practicable after the end of the plan year in which the employee severs employment or attains the normal retirement age.

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - continued
June 30, 2011 and 2010

NOTE 8- Fair value measurements

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. A fair value hierarchy distinguishes between market participant assumptions and the Association's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are the Association's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. The fair value of the Association's certificates of deposit are determined by reference to quoted prices in active markets for identical assets and other relevant information generated by market transactions.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. The Association does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. The Association does not utilize Level 3 inputs.

Fair value assets measured on a recurring basis at June 30, 2011 and 2010 consisted of certificates of deposit held at banks (Level 1) valued at \$1,614,624 and \$1,790,383, respectively.

NOTE 9 – Subsequent events

The Association entered into a lease agreement to rent a parcel of land within the Association property. The Association will receive a minimum monthly rent of \$2,500 starting September 2011.

Subsequent events have been evaluated through October 12, 2011, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SUN CITY VISTOSO COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON ASSET REPLACEMENTS (UNAUDITED)
For the year ended June 30, 2011

<u>Components</u>	<u>Estimated remaining useful lives (years)</u>	<u>Estimated future replacement costs</u>	<u>2012 funding requirements</u>	<u>Components of asset reserves at 6/30/11</u>
Administration	0 to 9	\$ 421,423	\$ 18,860	\$ 36,215
Café	0 to 19	1,182,817	52,936	101,644
Catalina Vista	0 to 25	1,019,831	45,642	87,638
Common area maintenance	0 to 13	954,187	42,704	81,997
Desert Oasis	0 to 28	1,258,803	56,337	108,174
Golf course	0 to 23	7,273,389	325,516	625,031
Maintenance	0 to 6	339,796	15,207	29,200
Mountain Vista	0 to 24	4,305,562	192,692	369,994
Proshop	0 to 18	928,202	41,541	79,764
Recreation	0 to 28	3,108,092	139,101	267,090
Vistoso Center	0 to 15	434,906	19,464	37,373
		<u>\$ 21,227,008</u>	<u>\$ 950,000</u>	<u>\$ 1,824,120</u>