

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

December 31, 2002 and 2001

McCLINTOCK ACCOUNTANCY CORPORATION

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

TABLE OF CONTENTS

		Page
	ACCOUNTANTS' REVIEW REPORT	1
Exhibit A	BALANCE SHEETS	2
Exhibit B	STATEMENTS OF OPERATING REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY	3
Exhibit C	STATEMENTS OF REPLACEMENT REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY	4
Exhibit D	STATEMENTS OF CASH FLOWS	5
	NOTES TO FINANCIAL STATEMENTS	6-9
	ACCOUNTANTS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION	10
Schedule 1	REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS	11

McCLINTOCK ACCOUNTANCY CORPORATION

ROBERT J. McCLINTOCK, CPA
MICHAEL R. GRIESMER, CPA

THOMAS E. CONNELL, CPA
SHARON FERREIRA, CPA

305 WEST LAKE BOULEVARD
P. O. BOX 6179
TAHOE CITY, CA 96145
TELEPHONE: 530-583-6994
FAX: 530-583-5405

12020 DONNER PASS ROAD
P. O. BOX 2468
TRUCKEE, CA 96160
TELEPHONE: 530-587-9221
FAX: 530-587-4946

ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Glenshire/Devonshire Residents Association, Inc.

We have reviewed the accompanying balance sheets of Glenshire/Devonshire Residents Association, Inc. as of December 31, 2002 and 2001, and the related statements of operating and replacement revenue, expenses and changes in members' equity, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Association's management.

A review consists principally of inquiries of Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
February 13, 2003

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
December 31, 2002 and 2001
(See Accountants' Review Report)

ASSETS		
	2002	2001
Cash, including \$20,670 and \$20,804 held as security deposits in 2002 and 2001 (Note 5)	\$ 204,338	\$ 194,664
Cash and certificates of deposit, designated for future major repairs and replacements (Note 6)	126,518	116,549
Dues receivable	158,480	159,152
Prepaid expenses and other assets	<u>5,857</u>	<u>9,385</u>
	<u>495,193</u>	<u>479,750</u>
Property and equipment	89,831	92,076
Less: accumulated depreciation	<u>(66,895)</u>	<u>(60,600)</u>
Net property and equipment	<u>22,936</u>	<u>31,476</u>
Total Assets	<u>\$ 518,129</u>	<u>\$ 511,226</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts payable	\$ 9,750	\$ 4,839
Accrued liabilities	10,516	10,033
Design review committee deposits (Note 5)	21,070	19,540
Deferred income	<u>271,400</u>	<u>271,400</u>
Total Liabilities	<u>312,736</u>	<u>305,812</u>
Members' Equity		
Operating fund	89,570	98,310
Replacement fund	<u>115,823</u>	<u>107,104</u>
Total Members' Equity	<u>205,393</u>	<u>205,414</u>
Total Liabilities and Members' Equity	<u>\$ 518,129</u>	<u>\$ 511,226</u>

The accompanying notes are an integral part of these statements.

-2-

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit B

STATEMENTS OF OPERATING REVENUE, EXPENSES
AND CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2002 and 2001
(See Accountants' Review Report)

	<u>2002</u>	<u>2001</u>
Revenue		
Members' dues	\$ 271,400	\$ 271,400
Less: dues allocated to replacement fund	<u>(20,000)</u>	<u>(21,250)</u>
	251,400	250,150
Design review committee fees	6,850	11,450
Late charges and transfer fees	16,560	11,765
Rental and class fees	30,907	33,500
Concessions sales, net of costs of goods sold of \$4,100 and \$3,838 in 2002 and 2001	2,343	2,515
Interest income	1,741	4,474
Miscellaneous	6,170	11,444
	<u>315,971</u>	<u>325,298</u>
Expenses		
Salaries and benefits	182,662	167,645
Repairs and maintenance	19,561	18,214
Insurance	20,830	17,420
Maintenance and operating supplies	11,722	14,121
Utilities	27,103	24,942
Professional services	3,256	8,086
Administrative services and supplies	24,656	25,585
Miscellaneous	4,257	1,940
Capital expenditures	21,121	15,658
Depreciation expense	9,765	9,702
Provision for income taxes (Note 4)	1,003	1,364
	<u>325,936</u>	<u>304,677</u>
Revenue Over (Under) Expenses	(9,965)	20,621
Members' Equity, Beginning of Year	98,310	74,692
Capitalized Replacement Fund Expenditures	1,225	2,997
Members' Equity, End of Year	<u>\$ 89,570</u>	<u>\$ 98,310</u>

The accompanying notes are an integral part of these statements.

-3-

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit C

STATEMENTS OF REPLACEMENT REVENUE,
EXPENSES AND CHANGES IN MEMBERS' EQUITY
For the Years Ended December 31, 2002 and 2001
(See Accountants' Review Report)

	<u>2002</u>	<u>2001</u>
Revenue		
Members' dues	\$ 20,000	\$ 21,250
Interest income	3,265	5,917
	<u>23,265</u>	<u>27,167</u>
Expenses		
Parking, landscape, tennis and playground	4,646	13,709
Office equipment	-0-	1,795
Clubhouse, fixtures and equipment	8,675	10,591
Pool and equipment	1,225	5,086
	<u>14,546</u>	<u>31,181</u>
Revenue Over (Under) Expenses	8,719	(4,014)
Members' Equity, Beginning of Year	<u>107,104</u>	<u>111,118</u>
Members' Equity, End of Year	<u>\$ 115,823</u>	<u>\$ 107,104</u>

The accompanying notes are an integral part of these statements.

-4-

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2002 and 2001
(See Accountants' Review Report)

	2002	2001
Cash Flows from Operating Activities:		
Operating Revenue Over (Under) Expenses	\$ (9,965)	\$ 20,621
Replacement Fund Revenue Over (Under) Expenses	8,719	(4,014)
Adjustments to reconcile operating and replacement revenue over (under) expenses to net cash provided by operating activities:		
Capitalized replacement fund expenditures	1,225	2,997
Depreciation	9,765	9,702
Change in accounts receivable	672	12,034
Change in prepaid expenses and other assets	3,528	(4,498)
Change in accounts payable	4,911	1,160
Change in accrued liabilities	483	3,837
Change in deposits	1,530	4,275
Change in deferred income	-0-	-0-
Net Cash Provided by Operating Activities	<u>20,868</u>	<u>46,114</u>
Cash Flows from Investing Activities:		
Acquisition of equipment	(1,225)	(7,328)
Net Cash Used for Investing Activities	<u>(1,225)</u>	<u>(7,328)</u>
Net Increase in Cash	19,643	38,786
Cash, Beginning of Year	<u>311,213</u>	<u>272,427</u>
Cash, End of Year	<u>\$ 330,856</u>	<u>\$ 311,213</u>
Analysis of Cash:		
Cash	\$ 204,338	\$ 194,664
Cash, designated	126,518	116,549
	<u>\$ 330,856</u>	<u>\$ 311,213</u>
Supplementary information:		
Income taxes paid	<u>\$ 2,915</u>	<u>\$ 400</u>

The accompanying notes are an integral part of these statements.

-5-

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

(See Accountants' Review Report)

1. Form and Nature of Organization

Glenshire/Devonshire Residents Association, Inc. is a non-stock, non-profit corporation organized in February 1969 under the laws of the state of California. The Association is a homeowners association supported by annual assessments of the 1,357 lots within the Glenshire/Devonshire subdivisions in Truckee, California. The Association was organized to provide the management services and maintenance of certain common use areas within the subdivision. The Association derives a significant portion of its revenue from dues assessments that are levied annually against each lot within the development.

2. Summary of Significant Accounting Policies

- A. The Association's governing documents provide certain guidelines for controlling its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts on the fund accounting basis. 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.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements.

- B. Real property and other common property acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. This property includes tennis courts, swimming pool, clubhouse and approximately 200 acres of common land. The Association capitalizes personal property at cost and depreciates it using the straight-line method over its estimated useful life of 3 to 7 years.
- C. Deferred income represents dues billed in the current period applicable to the following period.
- D. Association members are subject to annual dues to provide funds for the Association's operating expenses and major repairs and replacements. Dues receivable at the balance sheet date represents fees due from property owners. The Association's policy includes, among other things, assessing a late charge on delinquent payments and placing liens on the property of homeowners whose

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

(See Accountants' Review Report)

assessments are delinquent, with the right to proceed with non-judicial foreclosure proceedings if necessary.

- E. Interest earned on replacement fund investments is recorded as income in that fund. Any related income tax is recorded as an expense of the operating fund.
- F. The Association has elected to be taxed on net operating income as a regular corporation. However, certain elections are made to substantially reduce or eliminate income taxes on net member income. In general, dues allocated for future major repairs and replacements can be set-aside on a tax-free basis if applicable guidelines are followed. Additionally, all other amounts received by the Association, such as bank interest income, are taxed, net of related expenses, for federal and state purposes.
- G. For purposes of the Statements of Cash Flows, cash is defined as all cash in checking and money market accounts and short-term certificates of deposit.
- H. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Concentration of Credit Risk

The Association maintains demand and certificate of deposit accounts at various local banks. At December 31, 2002 and 2001, the aggregate total of these accounts exceeded the federally insured limits by \$2,635 and \$11,842, respectively.

Financial instruments that potentially subject the Association to credit risk consist principally of members' dues receivable. Dues receivable at December 31, 2002 and 2001 were primarily from members who live in the Glenshire/Devonshire subdivision or whose primary residence is within the State of California.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

(See Accountants' Review Report)

4. Income Taxes

The provision for income taxes is as follows:

	<u>2002</u>	<u>2001</u>
Federal	\$579	\$565
State	<u>424</u>	<u>799</u>
	<u>\$1,003</u>	<u>\$1,364</u>

5. Design Review Committee Deposits

Members are required to advance security deposits for construction and pay a fee to the Association to ensure that construction is completed in accordance with the guidelines established by the Association's Design Review Committee. The security deposits are refundable upon satisfactory completion of construction. In addition, the Association retains deposits for clubhouse rentals.

6. Future Major Repairs and Replacements of Common Area

The Association's CC&Rs provide for the Association to assess members for the acquisition, improvement and maintenance of common properties, primarily the clubhouse, tennis courts, swimming pool and surrounding parking area.

The amount of dues allocated to the replacement fund is based on a reserve study prepared by management and approved by the Board of Directors. The Association's policy is to fund for replacements over the estimated lives of the respective assets. Actual replacement costs and timing may vary from these estimates and the variations may be material. Therefore, amounts accumulated in the replacement 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 dues or levy special assessments. It may also delay major repairs and replacements until funds are available.

7. Commitments

The Association leases its photocopier under an operating lease. The terms of the lease call for monthly payments totaling \$3,060 per year through 2003.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

(See Accountants' Review Report)

8. Interfund Borrowings

The Association maintains an operating fund and replacement fund. At various times during the year, there is a receivable/(payable) between the funds. At December 31, 2002 and 2001, the replacement fund owed the operating fund \$10,695 and \$9,445, respectively.

McCLINTOCK ACCOUNTANCY CORPORATION

ROBERT J. McCLINTOCK, CPA
MICHAEL R. GRIESMER, CPA

THOMAS E. CONNELL, CPA
SHARON FERREIRA, CPA

305 WEST LAKE BOULEVARD
P. O. Box 6179
TAHOE CITY, CA 96145
TELEPHONE: 530-583-6994
FAX: 530-583-5405

12020 DONNER PASS ROAD
P. O. Box 2468
TRUCKEE, CA 96160
TELEPHONE: 530-587-9221
FAX: 530-587-4946

ACCOUNTANTS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION

To the Board of Directors
Glenshire/Devonshire Residents Association, Inc.

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements of Glenshire/Devonshire Residents 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 or any other form of assurance on it.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
February 13, 2003

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2002

(See Accountants' Report on Required Supplementary Information)

The Association's management updated a study in 2002 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. Estimated current replacement costs do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The Association does not designate the balance in the replacement fund by component. The total funds available for major repairs and replacements were \$115,823 at December 31, 2002. The 2003 budget includes \$20,500 of dues to be allocated to the replacement fund.

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

Component	Remaining Life (Years)	Life After Replacement (Years)	Current Replacement Cost
Parking, landscape, tennis and playground	0-30	7-30	\$ 193,760
Clubhouse, fixtures and equipment	0-27	5-40	355,176
Pool and equipment	0-24	5-31	106,638
Wading pool and equipment	2-14	8-20	27,922
Office equipment	0-4	3-10	<u>6,988</u>
			<u>\$ 690,394</u>