

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

December 31, 2005 and 2004

McCLINTOCK ACCOUNTANCY CORPORATION

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

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McCLINTOCK ACCOUNTANCY CORPORATION

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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, 2005 and 2004, 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, 2006

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS
December 31, 2005 and 2004
(See Accountants' Review Report)

ASSETS	<u>2005</u>	<u>2004</u>
Cash, including \$23,379 and \$25,878 held as security deposits in 2005 and 2004 (Note 5)	\$ 257,617	\$ 213,948
Cash and certificates of deposit, designated for future major repairs and replacements (Note 6)	125,140	116,867
Dues receivable	175,640	191,990
Prepaid expenses and other assets	<u>8,655</u>	<u>10,416</u>
	<u>567,052</u>	<u>533,221</u>
Property and equipment	93,438	95,696
Less: accumulated depreciation	<u>(71,521)</u>	<u>(70,674)</u>
Net property and equipment	<u>21,917</u>	<u>25,022</u>
Total Assets	<u>\$ 588,969</u>	<u>\$ 558,243</u>
 LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 536	\$ 2,251
Accrued liabilities	16,889	15,113
Design review committee deposits (Note 5)	22,950	26,280
Deferred income	<u>325,680</u>	<u>325,680</u>
Total Liabilities	<u>366,055</u>	<u>369,324</u>
Members' Equity		
Operating fund	108,623	85,072
Replacement fund	<u>114,291</u>	<u>103,847</u>
Total Members' Equity	<u>222,914</u>	<u>188,919</u>
Total Liabilities and Members' Equity	<u>\$ 588,969</u>	<u>\$ 558,243</u>

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit B

STATEMENTS OF OPERATING REVENUE, EXPENSES
AND CHANGES IN MEMBERS' EQUITY

For the Years Ended December 31, 2005 and 2004
(See Accountants' Review Report)

	<u>2005</u>	<u>2004</u>
Revenue		
Members' dues	\$ 325,680	\$ 271,400
Less: dues allocated to replacement fund	<u>(30,000)</u>	<u>(15,500)</u>
	<u>295,680</u>	<u>255,900</u>
Design review committee fees	7,535	8,450
Late charges and transfer fees	14,335	19,695
Rental and class fees	35,824	35,720
Concessions sales, net of costs of goods sold of \$4,179 and \$3,454 in 2005 and 2004	2,055	1,585
Interest income	2,112	680
Miscellaneous, including \$50,000 of lake trail grant revenue in 2005	<u>54,657</u>	<u>11,484</u>
	<u>412,198</u>	<u>333,514</u>
Expenses		
Salaries and benefits	202,887	201,705
Repairs and maintenance	20,633	22,118
Insurance	18,389	19,485
Maintenance and operating supplies	17,863	13,188
Utilities	31,562	34,419
Professional services	11,841	6,319
Administrative services and supplies	28,064	26,367
Miscellaneous	1,646	4,199
Capital expenditures, including \$50,352 of lake trail expenditures in 2005	51,329	543
Bad debt expense	55	-0-
Depreciation expense	6,852	9,936
Provision for income taxes (Note 4)	<u>1,273</u>	<u>363</u>
	<u>392,394</u>	<u>338,642</u>
Revenue Over (Under) Expenses	19,804	(5,128)
Members' Equity, Beginning of Year	85,072	88,100
Capitalized Replacement Fund Expenditures	<u>3,747</u>	<u>2,100</u>
Members' Equity, End of Year	<u>\$ 108,623</u>	<u>\$ 85,072</u>

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit C

STATEMENTS OF REPLACEMENT REVENUE,
EXPENSES AND CHANGES IN MEMBERS' EQUITY

For the Years Ended December 31, 2005 and 2004

(See Accountants' Review Report)

	<u>2005</u>	<u>2004</u>
Revenue		
Members' dues	\$ 30,000	\$ 15,500
Interest income	2,627	1,215
	<u>32,627</u>	<u>16,715</u>
Expenses		
Grounds	6,354	13,922
Office	-0-	2,100
Clubhouse	14,400	6,113
Pool	1,429	3,263
	<u>22,183</u>	<u>25,398</u>
Revenue Over (Under) Expenses	10,444	(8,683)
Members' Equity, Beginning of Year	<u>103,847</u>	<u>112,530</u>
Members' Equity, End of Year	<u>\$ 114,291</u>	<u>\$ 103,847</u>

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004
(See Accountants' Review Report)

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities:		
Operating Revenue Over (Under) Expenses	\$ 19,804	\$ (5,128)
Replacement Fund Revenue Over (Under) Expenses	10,444	(8,683)
Adjustments to reconcile operating and replacement revenue under expenses to net cash provided by operating activities:		
Capitalized replacement fund expenditures	3,747	2,100
Depreciation	6,852	9,936
Change in dues receivable	16,350	(29,322)
Change in prepaid expenses and other assets	1,761	(4,637)
Change in accounts payable	(1,715)	888
Change in accrued liabilities	1,776	5,094
Change in deposits	(3,330)	945
Change in deferred income	-0-	54,280
Net Cash Provided by Operating Activities	<u>55,689</u>	<u>25,473</u>
Cash Flows from Investing Activities:		
Acquisition of equipment	<u>(3,747)</u>	<u>(2,100)</u>
Net Cash Used for Investing Activities	<u>(3,747)</u>	<u>(2,100)</u>
Net Increase in Cash	51,942	23,373
Cash, Beginning of Year	<u>330,815</u>	<u>307,442</u>
Cash, End of Year	<u>\$ 382,757</u>	<u>\$ 330,815</u>
Analysis of Cash:		
Cash	\$ 257,617	\$ 213,948
Cash, designated	125,140	116,867
	<u>\$ 382,757</u>	<u>\$ 330,815</u>
Supplementary information:		
Income taxes paid	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

(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 15 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 assessments are delinquent, with the right to proceed with non-judicial foreclosure proceedings if necessary. An allowance for doubtful accounts is created when an

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

(See Accountants' Review Report)

account's collectibility is uncertain. Accounts are written off when the Association is notified that it is a bad debt, such as after a bankruptcy or foreclosure proceedings.

- 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, 2005 and 2004, the aggregate total of these accounts exceeded the federally insured limits by \$74,283 and \$26,488, respectively.

Financial instruments that potentially subject the Association to credit risk consist principally of members' dues receivable. Dues receivable at December 31, 2005 and 2004 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, 2005 and 2004

(See Accountants' Review Report)

4. Income Taxes

The provision for income taxes is as follows:

	<u>2005</u>	<u>2004</u>
Federal	\$872	\$260
State	401	103
	<u>\$1,273</u>	<u>\$363</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. 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, 2005 and 2004, the replacement fund owed the operating fund \$10,849 and \$13,020, respectively.

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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 10 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, 2006

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2005

(See Accountants' Report on Required Supplementary Information)

The Association's management updated a study in 2005 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 \$114,291 at December 31, 2005. The 2006 budget includes \$25,000 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
Clubhouse	3-24	6-30	\$ 359,588
Grounds	1-24	7-30	212,117
Main pool	0-11	5-23	107,483
Office	1-7	3-10	10,434
Wading pool	2-11	10-20	27,572
			<u>\$ 717,194</u>