

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

December 31, 2006 and 2005

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	6-8
	ACCOUNTANTS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION	9
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, 2006 and 2005, 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 14, 2007

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS

December 31, 2006 and 2005

(See Accountants' Review Report)

ASSETS	<u>2006</u>	<u>2005</u>
Cash, including \$26,500 and \$23,379 held as security deposits in 2006 and 2005 (Note 5)	\$ 320,910	\$ 257,617
Cash and certificates of deposit, designated for future major repairs and replacements (Note 6)	111,605	125,140
Dues receivable	194,522	175,640
Prepaid expenses and other assets	4,802	8,655
	<u>631,839</u>	<u>567,052</u>
Property and equipment	98,684	93,438
Less: accumulated depreciation	(72,849)	(71,521)
Net property and equipment	<u>25,835</u>	<u>21,917</u>
Total Assets	<u>\$ 657,674</u>	<u>\$ 588,969</u>
 LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 16,355	\$ 536
Accrued liabilities	17,900	16,889
Design review committee and other deposits (Note 5)	27,400	22,950
Deferred income	325,680	325,680
Total Liabilities	<u>387,335</u>	<u>366,055</u>
Members' Equity		
Operating fund	168,480	108,623
Replacement fund	101,859	114,291
Total Members' Equity	<u>270,339</u>	<u>222,914</u>
Total Liabilities and Members' Equity	<u>\$ 657,674</u>	<u>\$ 588,969</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, 2006 and 2005

(See Accountants' Review Report)

	2006	2005
Revenue		
Members' dues	\$ 325,680	\$ 325,680
Less: dues allocated to replacement fund	(25,000)	(30,000)
	<u>300,680</u>	<u>295,680</u>
Design review committee fees	8,595	7,535
Late charges and transfer fees	13,044	14,335
Rental and class fees	42,923	35,824
Concessions sales, net of costs of goods sold of \$2,376 and \$4,179 in 2006 and 2005	1,703	2,055
Interest income	6,326	2,112
Miscellaneous, including \$50,000 of lake trail grant revenue in 2005	10,695	54,657
	<u>383,966</u>	<u>412,198</u>
Expenses		
Salaries and benefits	197,529	202,887
Repairs and maintenance	23,782	20,633
Insurance	18,567	18,389
Maintenance and operating supplies	13,124	17,863
Utilities	31,358	31,562
Professional services	4,600	11,841
Administrative services and supplies	27,804	28,064
Miscellaneous	2,302	1,646
Capital expenditures, including \$50,352 of lake trail expenditures in 2005	2,422	51,329
Bad debt expense	-0-	55
Depreciation expense	6,284	6,852
Provision for income taxes (Note 4)	5,665	1,273
	<u>333,437</u>	<u>392,394</u>
Revenue Over Expenses	50,529	19,804
Members' Equity, Beginning of Year	108,623	85,072
Capitalized Replacement Fund Expenditures	<u>9,328</u>	<u>3,747</u>
Members' Equity, End of Year	<u>\$ 168,480</u>	<u>\$ 108,623</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, 2006 and 2005

(See Accountants' Review Report)

	<u>2006</u>	<u>2005</u>
Revenue		
Members' dues	\$ 25,000	\$ 30,000
Grant income-CFIP	15,354	-0-
Interest income	3,829	2,627
	<u>44,183</u>	<u>32,627</u>
Expenses		
Grounds	30,146	6,354
Office	1,565	-0-
Clubhouse	18,652	14,400
Pool	6,252	1,429
	<u>56,615</u>	<u>22,183</u>
Revenue Over (Under) Expenses	(12,432)	10,444
Members' Equity, Beginning of Year	<u>114,291</u>	<u>103,847</u>
Members' Equity, End of Year	<u>\$ 101,859</u>	<u>\$ 114,291</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, 2006 and 2005

(See Accountants' Review Report)

	2006	2005
Cash Flows from Operating Activities:		
Operating Revenue Over Expenses	\$ 50,529	\$ 19,804
Replacement Fund Revenue Over (Under) Expenses	(12,432)	10,444
Adjustments to reconcile operating and replacement revenue under expenses to net cash provided by operating activities:		
Capitalized replacement fund expenditures	9,328	3,747
Depreciation	6,284	6,852
Change in dues receivable	(18,882)	16,350
Change in prepaid expenses and other assets	3,853	1,761
Change in accounts payable	15,819	(1,715)
Change in accrued liabilities	1,011	1,776
Change in deposits	4,450	(3,330)
Change in deferred income	-0-	-0-
Net Cash Provided by Operating Activities	59,960	55,689
Cash Flows from Investing Activities:		
Acquisition of equipment	(10,202)	(3,747)
Net Cash Used for Investing Activities	(10,202)	(3,747)
Net Increase in Cash	49,758	51,942
Cash, Beginning of Year	382,757	330,815
Cash, End of Year	\$ 432,515	\$ 382,757
Analysis of Cash:		
Cash	\$ 320,910	\$ 257,617
Cash, designated	111,605	125,140
	\$ 432,515	\$ 382,757
Supplementary information:		
Income taxes paid	\$ 499	\$ -0-

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(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 account's collectibility is uncertain. Accounts are written off when the Association

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(See Accountants' Review Report)

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, 2006 and 2005, the aggregate total of these accounts exceeded the federally insured limits by \$21,251 and \$74,283, respectively.

The Association invests a portion of its cash in a money market mutual fund that holds primarily commercial paper, certificates of deposit, and U.S. government backed securities.

Financial instruments that potentially subject the Association to credit risk consist principally of members' dues receivable. Dues receivable at December 31, 2006 and 2005 were primarily from members who live in the Glenshire/Devonshire subdivision or whose primary residence is within the State of California.

4. Income Taxes

The provision for income taxes is as follows:

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

(See Accountants' Review Report)

	2006	2005
Federal	\$4,785	\$872
State	880	401
	\$5,665	\$1,273

The amount of federal income tax payable at December 31, 2006 has been reduced by an available tax credit of \$3,804 from a prior year.

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, 2006 and 2005, the replacement fund owed the operating fund \$10,849 and \$13,020, respectively.

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305 WEST LAKE BOULEVARD
P. O. BOX 6179
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TELEPHONE: 530-583-6994
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12020 DONNER PASS ROAD
P. O. BOX 2468
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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 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 14, 2007

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS

December 31, 2006

(See Accountants' Report on Required Supplementary Information)

The Association's management updated a study in 2006 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 \$101,859 at December 31, 2006. The 2007 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	2-23	6-50	\$ 359,588
Grounds	1-23	10-30	212,117
Main pool	0-10	5-23	107,483
Office	1-6	3-10	10,434
Wading pool	0-10	9-20	27,572
			<u>\$ 717,194</u>