

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

December 31, 2009 and 2008

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

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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, 2009 and 2008, 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 24, 2010

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS

December 31, 2009 and 2008
(See Accountants' Review Report)

	2009	2008
ASSETS		
Cash and equivalents, including \$35,745 and \$37,820 held as security deposits in 2009 and 2008 (Note 5)	\$ 289,029	\$ 299,799
Cash equivalents including certificates of deposit, designated for future major repairs and replacements (Note 6)	242,328	139,110
Dues receivable, less allowance for doubtful accounts of \$2,500 in 2009 and 2008	236,540	243,570
Prepaid expenses and other assets	7,100	6,596
	774,997	689,075
Property and equipment	112,791	111,849
Less: accumulated depreciation	(87,956)	(82,187)
Net property and equipment	24,835	29,662
 Total Assets	 \$ 799,832	 \$ 718,737
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 14,785	\$ 5,623
Accrued liabilities	12,242	5,148
Design review committee and other deposits (Note 5)	36,245	38,420
Deferred income	373,150	373,175
Total Liabilities	436,422	422,366
Members' Equity		
Operating fund	121,083	150,844
Replacement fund	242,327	145,527
Total Members' Equity	363,410	296,371
 Total Liabilities and Members' Equity	 \$ 799,832	 \$ 718,737

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, 2009 and 2008

(See Accountants' Review Report)

	<u>2009</u>	<u>2008</u>
Revenue		
Members' dues	\$ 373,175	\$ 373,175
Less: dues allocated to replacement fund	(95,000)	(100,000)
	<u>278,175</u>	<u>273,175</u>
Design review committee fees	2,600	4,400
Late charges and transfer fees	15,537	9,288
Rental and class fees	38,932	40,377
Concessions sales, net of costs of goods sold of \$3,944 and \$4,060 in 2009 and 2008	286	1,182
Interest income	4,716	3,765
Miscellaneous, including \$7,364 and \$54,170 of lake trail grant revenue in 2009 and 2008, respectively	11,620	58,846
	<u>351,866</u>	<u>391,033</u>
Expenses		
Salaries and benefits	208,278	197,328
Repairs and maintenance	32,721	30,909
Insurance	22,855	18,796
Maintenance and operating supplies	23,920	24,279
Utilities	28,460	36,415
Professional services	6,953	6,013
Administrative services and supplies	38,637	33,473
Miscellaneous	1,435	2,634
Capital expenditures, lake trail expenditures	7,468	54,170
Bad debt expense	2,135	2,569
Depreciation expense	7,368	7,165
Provision for income taxes (Note 4)	1,397	1,472
	<u>381,627</u>	<u>415,223</u>
Revenue Under Expenses	(29,761)	(24,190)
Capitalized Replacement Fund Expenditures	-0-	7,150
Members' Equity, Beginning of Year	<u>150,844</u>	<u>167,884</u>
Members' Equity, End of Year	<u>\$ 121,083</u>	<u>\$ 150,844</u>

The accompanying notes are an integral part of these statements.

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GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit C

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

For the Years Ended December 31, 2009 and 2008

(See Accountants' Review Report)

	<u>2009</u>	<u>2008</u>
Revenue		
Members' dues	\$ 95,000	\$ 100,000
Interest income	1,800	2,547
	<u>96,800</u>	<u>102,547</u>
Expenses		
Grounds	-0-	13,317
Pool	-0-	14,520
	<u>-0-</u>	<u>27,837</u>
Revenue Over Expenses	96,800	74,710
Members' Equity, Beginning of Year	<u>145,527</u>	<u>70,817</u>
Members' Equity, End of Year	<u>\$ 242,327</u>	<u>\$ 145,527</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, 2009 and 2008
(See Accountants' Review Report)

	2009	2008
Cash Flows from Operating Activities:		
Operating Revenue Over (Under) Expenses	\$ (29,761)	\$ (24,190)
Replacement Fund Revenue Over (Under) Expenses	96,800	74,710
Adjustments to reconcile operating and replacement revenue under expenses to net cash provided by operating activities:		
Capitalized replacement fund expenditures	-0-	7,150
Depreciation	7,368	7,165
Change in dues receivable-net	7,030	2,401
Change in prepaid expenses and other assets	(504)	(1,794)
Change in accounts payable	9,163	3,453
Change in accrued liabilities	7,094	(573)
Change in deposits	(2,175)	(1,780)
Change in deferred income	(25)	-0-
Net Cash Provided (Used) by Operating Activities	94,990	66,542
Cash Flows from Investing Activities:		
Acquisition of equipment	(2,542)	(9,146)
Net Cash Used for Investing Activities	(2,542)	(9,146)
Net Increase in Cash and Cash Equivalents	92,448	57,396
Cash and Cash Equivalents, Beginning of Year	438,909	381,513
Cash and Cash Equivalents, End of Year	\$ 531,357	\$ 438,909
Analysis of Cash:		
Cash and Cash Equivalents	\$ 289,029	\$ 299,799
Cash and Cash Equivalents, designated	242,328	139,110
	\$ 531,357	\$ 438,909
Supplementary information:		
Income taxes paid	\$ -0-	\$ 5,200

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(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, 2009 and 2008

(See Accountants' Review Report)

is notified that it is a bad debt, such as after a bankruptcy or foreclosure proceedings. Fine income is recognized as revenue when collected due to the uncertainty surrounding the collection of those amounts.

- 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 carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.
- I. 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, 2009 and 2008, the aggregate balance of these accounts did not exceed the federally insured limits.

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. Money market mutual fund holdings are not federally insured.

Financial instruments that potentially subject the Association to credit risk consist principally of members' dues receivable. Dues receivable at December 31, 2009 and 2008 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, 2009 and 2008

(See Accountants' Review Report)

4. Income Taxes

The provision for income taxes is as follows:

	<u>2009</u>	<u>2008</u>
Federal	\$ 839	\$ 932
State	<u>558</u>	<u>540</u>
	<u>\$1,397</u>	<u>\$1,472</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. There were no amounts due between the funds at December 31, 2009. At December 31, 2008, the operating fund owed the replacement fund \$6,417.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

(See Accountants' Review Report)

8. Subsequent Events

Subsequent events have been evaluated through February 24, 2010, the date that the statements were available for issuance.

McCLINTOCK ACCOUNTANCY CORPORATION

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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 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 24, 2010

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS

December 31, 2009

(See Accountants' Report on Required Supplementary Information)

The Association's management updated a study in 2009 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 \$242,327 at December 31, 2009. The 2010 budget includes \$50,000 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	0-21	10-50	\$ 353,393
Grounds	2-21	10-40	239,053
Main pool	0-18	7-20	110,828
Office	2-4	5-10	8,732
Wading pool	1-10	10-20	30,322
			<u>\$ 742,328</u>