

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

ACCOUNTANTS' REVIEW REPORT

December 31, 2003 and 2002

M<sup>c</sup>CLINTOCK ACCOUNTANCY CORPORATION

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McCLINTOCK ACCOUNTANCY CORPORATION

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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, 2003 and 2002, 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  
Tulace City, California  
February 6, 2004

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.  
 BALANCE SHEETS  
 December 31, 2003 and 2002  
 (See Accountants' Review Report)

Exhibit A

	2003	2002
ASSETS		
Cash, including \$24,936 and \$20,670 held as security deposits in 2003 and 2002 (Note 5)	\$ 184,209	\$ 204,338
Cash and certificates of deposit, designated for future major repairs and replacements (Note 6)	123,233	126,518
Dues receivable	162,668	158,480
Prepaid expenses and other assets	5,779	5,857
	475,889	495,193
Property and equipment	108,497	89,831
Less accumulated depreciation	(75,639)	(66,895)
Net property and equipment	32,858	22,936
Total Assets	\$ 508,747	\$ 518,129

	2003	2002
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 1,363	\$ 9,750
Accrued liabilities	10,019	10,516
Design review committee deposits (Note 5)	25,335	21,070
Deferred income	271,400	271,400
Total Liabilities	308,117	312,736
Members' Equity		
Operating fund	88,100	89,570
Replacement fund	112,530	115,823
Total Members' Equity	200,630	205,393
Total Liabilities and Members' Equity	\$ 508,747	\$ 518,129

The accompanying notes are an integral part of these statements.

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GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.  
 STATEMENTS OF OPERATING REVENUE, EXPENSES  
 AND CHANGES IN MEMBERS' EQUITY  
 For the Years Ended December 31, 2003 and 2002  
 (See Accountants' Review Report)

Exhibit B

	2003	2002
Revenue		
Members' dues	\$ 271,490	\$ 271,490
Less: dues allocated to replacement fund	(20,900)	(20,000)
	250,590	251,490
Design review committee fees	7,210	6,850
Late charges and transfer fees	18,155	16,560
Rental and class fees	37,405	30,907
Concessions sales, net of costs of goods sold of \$4,207 and \$4,100 in 2003 and 2002	864	2,343
Interest income	603	1,741
Miscellaneous	5,456	6,170
	320,593	315,971
Expenses		
Salaries and benefits	181,377	182,662
Repairs and maintenance	20,489	19,561
Insurance	22,192	20,830
Maintenance and operating supplies	13,353	11,722
Utilities	29,323	27,103
Professional services	4,805	3,256
Administrative services and supplies	22,779	24,656
Miscellaneous	1,643	4,297
Capital expenditures	32,622	21,121
Bad debt expense	200	-0-
Depreciation expense	10,829	9,765
Provision for income taxes (Note 4)	532	1,003
	340,145	325,916
Revenue Under Expenses	(19,552)	(9,965)
Members' Equity, Beginning of Year	89,570	98,310
Capitalized Replacement Fund Expenditures	18,082	1,225
Members' Equity, End of Year	\$ 88,100	\$ 89,570

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, 2003 and 2002  
 (See Accountants' Review Report)

	2003	2002
Revenue		
Members' dues	\$ 20,500	\$ 20,000
Interest income	1,841	3,265
	<u>22,341</u>	<u>23,265</u>
Expenses		
Parking, handscaps, tennis and playground	16,796	4,646
Office equipment	5,375	-
Clubhouse, fixtures and equipment	3,463	8,675
Pool and equipment	25,634	1,225
	<u>(3,293)</u>	<u>14,546</u>
Revenue Over (Under) Expenses	115,823	8,719
Members' Equity, Beginning of Year	115,823	107,104
Members' Equity, End of Year	<u>\$ 112,530</u>	<u>\$ 115,823</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, 2003 and 2002  
 (See Accountants' Review Report)

	2003	2002
Cash Flows from Operating Activities:		
Operating Revenue Under Expenses	\$ (19,552)	\$ (9,965)
Replacement Fund Revenue Over (Under) Expenses	(3,293)	8,719
Adjustments to reconcile operating and replacement revenue over (under) expenses to net cash used for operating activities:		
Capitalized replacement fund expenditures	18,082	1,225
Depreciation	10,829	9,765
Change in dues receivable	(4,188)	672
Change in prepaid expenses and other assets	78	3,528
Change in accounts payable	(8,387)	4,911
Change in accrued liabilities	(497)	483
Change in deposits	4,265	1,530
Change in deferred income	-	-
Net Cash Used for Operating Activities	<u>(2,663)</u>	<u>20,868</u>
Cash Flows from Investing Activities:		
Acquisition of equipment	(20,751)	(1,225)
Net Cash Used for Investing Activities	<u>(20,751)</u>	<u>(1,225)</u>
Net Increase (Decrease) in Cash	(2,414)	19,643
Cash, Beginning of Year	330,856	311,213
Cash, End of Year	<u>\$ 307,442</u>	<u>\$ 330,856</u>
Analysis of Cash:		
Cash	\$ 184,209	\$ 204,338
Cash, designated	123,233	126,518
	<u>\$ 307,442</u>	<u>\$ 330,856</u>
Supplementary information:		
Income taxes paid	\$ -0-	\$ 2,915

The accompanying notes are an integral part of these statements. -5-

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

(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, 2003 and 2002

(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, 2003 and 2002, the aggregate total of these accounts exceeded the federally insured limits by \$10,881 and \$2,635, respectively.

Financial instruments that potentially subject the Association to credit risk consist principally of members' dues receivable. Dues receivable at December 31, 2003 and 2002 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, 2003 and 2002

(See Accountants' Review Report)

4. Income Taxes

The provision for income taxes is as follows:

	2003	2002
Federal	\$319	\$579
State	214	424
	<u>\$533</u>	<u>\$1,003</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 CCRs 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 entered into an agreement for constructing boardwalk sections for the lake trail. The total amount remaining on this contract at December 31, 2003 is \$36,000.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS  
December 31, 2003 and 2002

(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, 2003 and 2002, the replacement fund owed the operating fund \$10,702 and \$10,695, respectively.

**MCCLINTOCK ACCOUNTANCY CORPORATION**

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**ACCOUNTANTS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION**

**GLENESHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.**  
**REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS**  
 December 31, 2003  
 Schedule 1

(See Accountants' Report on Required Supplementary Information)

The Association's management updated a study in 2003 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 \$112,530 at December 31, 2003. The 2004 budget includes \$13,500 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	0-26	7-30	\$ 205,645
Clubhouse, fixtures and equipment	0-26	6-50	355,176
Pool and equipment	0-13	6-23	104,645
Wading pool and equipment	2-13	8-20	27,922
Office equipment	0-9	3-10	10,270
			<b>\$ 703,658</b>

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  
 Tulare City, California  
 February 6, 2004