

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

December 31, 2013 and 2012

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

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# McCLINTOCK ACCOUNTANCY CORPORATION

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying balance sheet of Glenshire/Devonshire Residents Association, Inc. as of December 31, 2013 and the related statements of operating revenue, expenses and changes in fund balance, replacement revenue, expenses and changes in fund balance and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Association's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacements on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The required supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the required supplementary information and, accordingly, we do not express an opinion or provide any assurance on such required supplementary information.

Information for the year ended December 31, 2012 is presented for comparative purposes only and was extracted from the financial statements for that year, on which our accountants' review report was dated March 11, 2013.

*McClintock Accountancy Corporation*

McCLINTOCK ACCOUNTANCY CORPORATION  
Tahoe City, California  
March 12, 2014

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS

December 31, 2013 (with comparative totals for 2012)

(See Independent Accountants' Review Report)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
<b>ASSETS</b>				
Cash and equivalents, including \$44,583 and \$42,275 held as security deposits in 2013 and 2012 (Note 5)	\$ 327,045	\$ -0-	\$ 327,045	\$ 309,341
Cash equivalents including certificates of deposit, designated for future major repairs and replacements (Note 6)	-0-	500,245	500,245	508,455
Dues receivable, less allowance for doubtful accounts of \$4,719 in 2013 and \$6,424 in 2012	235,207	-0-	235,207	234,213
Due (to) / from other funds	(49,861)	49,861	-0-	-0-
Insurance claim receivable, less allowance for doubtful accounts of \$3,137 in 2013 and \$-0- in 2012	12,305	-0-	12,305	88,681
Prepaid expenses and other assets	14,651	-0-	14,651	3,385
	<u>539,347</u>	<u>550,106</u>	<u>1,089,453</u>	<u>1,144,075</u>
Property and equipment	101,531	-0-	101,531	116,938
Less: accumulated depreciation	(84,907)	-0-	(84,907)	(95,928)
Net property and equipment	<u>16,624</u>	<u>-0-</u>	<u>16,624</u>	<u>21,010</u>
Total Assets	<u>\$ 555,971</u>	<u>\$ 550,106</u>	<u>\$ 1,106,077</u>	<u>\$ 1,165,085</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 10,794	\$ -0-	\$ 10,794	\$ 7,317
Accrued liabilities	20,615	-0-	20,615	119,493
Design review committee and other deposits (Note 5)	41,945	-0-	41,945	43,545
Deferred income	374,773	-0-	374,773	375,048
Total Liabilities	<u>448,127</u>	<u>-0-</u>	<u>448,127</u>	<u>545,403</u>
<b>Fund Balances</b>				
Operating fund	107,844	-0-	107,844	111,227
Replacement fund	-0-	550,106	550,106	508,455
Total Fund Balances	<u>107,844</u>	<u>550,106</u>	<u>657,950</u>	<u>619,682</u>
Total Liabilities and Fund Balances	<u>\$ 555,971</u>	<u>\$ 550,106</u>	<u>\$ 1,106,077</u>	<u>\$ 1,165,085</u>

STATEMENTS OF OPERATING REVENUE, EXPENSES  
AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2013 and 2012  
(See Independent Accountants' Review Report)

	2013	2012
Revenue		
Members' dues	\$ 373,175	\$ 373,175
Less: dues allocated to replacement fund	(50,000)	(105,000)
	<u>323,175</u>	<u>268,175</u>
Design review committee fees	3,250	3,350
Late charges and transfer fees	25,538	26,041
Rental and class fees	29,184	30,404
Estimated insurance claim proceeds (Note 8)	1,304	109,000
Concessions sales, net of costs of goods sold of \$2,818 and \$2,615 in 2013 and 2012	788	1,347
Interest income	348	544
Non-compliance fees	100	11,950
Miscellaneous revenue	6,915	8,549
	<u>390,602</u>	<u>459,361</u>
Expenses		
Salaries - admin/pool/maintenance	178,276	176,772
Benefits, payroll taxes and workers compensation	49,346	48,354
Grounds/pools maintenance and supplies	26,361	17,151
Insurance	27,862	28,348
Clubhouse maintenance and supplies	17,427	14,710
Utilities	29,972	25,708
Professional services	15,701	5,309
Administrative services and supplies	27,405	27,572
Estimated insurance claim expenses (Note 8)	-0-	110,000
Miscellaneous	2,560	997
Lake trail expenditures	5,205	2,211
Bad debt expense	8,941	6,265
Depreciation expense	4,673	5,640
Loss on disposal of property	736	-0-
Provision for income taxes (Note 4)	544	362
	<u>395,009</u>	<u>469,400</u>
Revenue Over (Under) Expenses	(4,407)	(10,040)
Fund Balance, Beginning of Year	<u>111,227</u>	<u>121,267</u>
Equity transfer - capitalized equipment	1,024	-0-
Fund Balance, End of Year	<u>\$ 107,844</u>	<u>\$ 111,227</u>

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit C

STATEMENTS OF REPLACEMENT REVENUE,  
EXPENSES AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2013 and 2012

(See Independent Accountants' Review Report)

	<u>2013</u>	<u>2012</u>
Revenue		
Members' dues	\$ 50,000	\$ 105,000
Interest income	1,296	1,118
	<u>51,296</u>	<u>106,118</u>
Expenses		
Clubhouse fixtures and equipment	8,621	14,175
	<u>8,621</u>	<u>14,175</u>
Revenue Over Expenses	42,675	91,943
Fund Balance, Beginning of Year	<u>508,455</u>	<u>416,512</u>
Equity transfer - capitalized equipment	(1,024)	-0-
Fund Balance, End of Year	<u>\$ 550,106</u>	<u>\$ 508,455</u>

The accompanying notes are an integral part of these statements.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit D

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2013 (with comparative totals for 2012)

(See Independent Accountants' Review Report)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Revenue Over Expenses	\$ (4,407)	\$ 42,675	\$ 38,268	\$ 81,903
Adjustments:				
Capitalized replacement fund expenditures	1,024	(1,024)	-0-	-0-
Depreciation	4,673	-0-	4,673	5,640
Loss on disposal of property	736	-0-	736	-0-
Change in due (to) / from other funds	49,861	(49,861)	-0-	-0-
Change in assets other than cash and property & equipment	64,117	-0-	64,117	(55,714)
Change in payables and other liabilities	(97,276)	-0-	(97,276)	106,114
Total adjustments	23,135	(50,885)	(27,750)	56,040
Net Cash Provided (Used) by Operating Activities	18,728	(8,210)	10,518	137,943
Cash Flows from Investing Activities:				
Acquisition of equipment	(1,024)	-0-	(1,024)	(11,433)
Net Cash Used for Investing Activities	(1,024)	-0-	(1,024)	(11,433)
Net Increase in Cash and Equivalents	17,704	(8,210)	9,494	126,510
Cash and equivalents - Beginning of Year	309,341	508,455	817,796	691,286
Cash and equivalents - End of Year	\$ 327,045	\$ 500,245	\$ 827,290	\$ 817,796

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

(See Independent 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 collectability is uncertain. Accounts are written off when the Association



GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

(See Independent 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. The Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.
- G. For purposes of the Statements of Cash Flows, cash and cash equivalents are defined as all cash in checking and money market accounts and short-term (six months or less) or highly liquid 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, 2013 and 2012, the aggregate balance of these accounts exceeded federally insured limits by \$-0- and \$98,765, 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. 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, 2013 and 2012

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

(See Independent Accountants' Review Report)

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:

	<u>2013</u>	<u>2012</u>
Federal	\$ 281	\$ 208
State	<u>218</u>	<u>154</u>
	<u><u>\$ 499</u></u>	<u><u>\$ 489</u></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.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

(See Independent Accountants' Review Report)

7. Interfund Activity

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, 2013 and 2012 the operating fund owed the replacement fund \$49,861 and \$-0-, respectively.

8. Storm Damage

During 2012, a severe storm inflicted significant damage to the Association's clubhouse ramp. As of December 31, 2012, the amount of damage incurred was estimated by management to be approximately \$110,000. The Association anticipated the insurance policy would cover all repair costs in excess of the policy's deductible. The clubhouse ramp repairs were completed during the year ended December 31, 2013. Total expenditures incurred were \$108,696. As of December 31, 2013, \$88,135 has been recovered by insurance. The Association is currently in dispute with the insurance provider over the remaining balance and anticipates they will be successful in collecting a quantity of the amount outstanding.

9. Subsequent Events

Subsequent events have been evaluated by management through March 12, 2014 the date that the statements were available for issuance.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR  
REPAIRS AND REPLACEMENTS

December 31, 2013

(Unaudited)

(See Independent Accountants' Review Report)

The Association's management updated a study in 2013 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 \$550,106 at December 31, 2013. The 2014 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	0-31	10-70	\$ 1,661,760
Grounds	1-18	10-45	411,403
Main pool	2-16	6-24	189,273
Office	0-7	5-8	14,210
Wading pool	1-6	10-20	42,185
			<u>\$ 2,318,831</u>