

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Truckee, California

FINANCIAL STATEMENTS

AND

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

December 31, 2015 and 2014

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

TABLE OF CONTENTS

| | | Page |
|------------|--|------|
| | INDEPENDENT ACCOUNTANTS' REVIEW REPORT | 1-2 |
| Exhibit A | BALANCE SHEETS | 3 |
| Exhibit B | STATEMENTS OF OPERATING REVENUE, EXPENSES AND CHANGES IN FUND BALANCE | 4 |
| Exhibit C | STATEMENTS OF REPLACEMENT REVENUE, EXPENSES AND CHANGES IN FUND BALANCE | 5 |
| Exhibit D | STATEMENTS OF CASH FLOWS | 6 |
| | NOTES TO FINANCIAL STATEMENTS | 7-11 |
| Schedule 1 | REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS | 12 |

M^cCLINTOCK ACCOUNTANCY CORPORATION

ROBERT J. M^cCLINTOCK, CPA
MICHAEL R. GRIESMER, CPA
ALICE HAHN

SHARON FERREIRA, CPA
KENDALL GALKA, CPA

305 WEST LAKE BOULEVARD
P. O. BOX 6179
TAHOE CITY, CA 96145
TELEPHONE: 530-583-6994
FAX: 530-583-5405

11500 DONNER PASS RD.
SUITE B
P. O. BOX 2468
TRUCKEE, CA 96160
TELEPHONE: 530-587-9221
FAX: 530-587-4946

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Glenshire/Devonshire Residents Association, Inc., which comprise the balance sheet as of December 31, 2015, 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, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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.

Association's Responsibility for the Financial Statements

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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacements on page 12 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.

Summarized Comparative Information

We previously reviewed Glenshire/Devonshire Residents Association, Inc.'s 2014 financial statements and in our conclusion dated February 16, 2015, stated that based on our review, we were not aware of any material modifications that should be made to the 2014 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2014, for it to be consistent with the reviewed financial statements from which it has been derived.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
March 2, 2016

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

Exhibit A

BALANCE SHEETS

December 31, 2015 (with comparative totals for 2014)

(See Independent Accountants' Review Report)

| | 2015 | | | 2014 |
|---|-------------------|-------------------|-------------------|---------------------|
| | Operating Fund | Replacement Fund | Total | Total |
| ASSETS | | | | |
| Cash and equivalents, including \$42,608 and \$41,145 held as security deposits in 2015 and 2014 (Note 5) | \$ 283,672 | \$ -0- | \$ 283,672 | \$ 358,780 |
| Cash equivalents including certificates of deposit, designated for future major repairs and replacements (Note 6) | -0- | 214,404 | 214,404 | 486,639 |
| Dues receivable, less allowance for doubtful accounts of \$2,772 in 2015 and \$3,035 in 2014 | 300,178 | -0- | 300,178 | 277,052 |
| Due (to) / from other funds (Note 8) | 42,327 | (42,327) | -0- | -0- |
| Prepaid expenses and other assets | 2,321 | 11,585 | 13,906 | 8,256 |
| | <u>628,498</u> | <u>183,662</u> | <u>812,160</u> | <u>1,130,727</u> |
| Property and equipment | 102,429 | -0- | 102,429 | 101,233 |
| Less: accumulated depreciation | (77,587) | -0- | (77,587) | (82,693) |
| Net property and equipment | <u>24,842</u> | <u>-0-</u> | <u>24,842</u> | <u>18,540</u> |
| | | | | |
| Total Assets | <u>\$ 653,340</u> | <u>\$ 183,662</u> | <u>\$ 837,002</u> | <u>\$ 1,149,267</u> |
| | | | | |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 4,798 | \$ 455,547 | \$ 460,345 | \$ 12,816 |
| Accrued liabilities | 27,522 | -0- | 27,522 | 22,984 |
| Note payable (Note 9) | -0- | 441,818 | 441,818 | -0- |
| Design review committee and other deposits (Note 5) | 43,545 | -0- | 43,545 | 41,745 |
| Deferred income | 449,208 | 10,895 | 460,103 | 449,538 |
| Total Liabilities | <u>525,073</u> | <u>908,260</u> | <u>1,433,333</u> | <u>527,083</u> |
| | | | | |
| Fund Balances | | | | |
| Operating fund | 128,267 | -0- | 128,267 | 126,492 |
| Replacement fund | -0- | (724,598) | (724,598) | 495,692 |
| Total Fund Balances | <u>128,267</u> | <u>(724,598)</u> | <u>(596,331)</u> | <u>622,184</u> |
| | | | | |
| Total Liabilities and Fund Balances | <u>\$ 653,340</u> | <u>\$ 183,662</u> | <u>\$ 837,002</u> | <u>\$ 1,149,267</u> |

STATEMENTS OF OPERATING REVENUE, EXPENSES
AND CHANGES IN FUND BALANCE

For the Years Ended December 31, 2015 and 2014

(See Independent Accountants' Review Report)

| | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|
| Revenue | | |
| Members' dues | \$ 447,810 | \$ 373,175 |
| Less: dues allocated to replacement fund | <u>(90,000)</u> | <u>(50,000)</u> |
| | <u>357,810</u> | <u>323,175</u> |
| Design review committee fees | 3,300 | 3,925 |
| Transfer fees | 16,750 | 16,250 |
| Late charges | 5,093 | 4,482 |
| Rental and class fees | 27,074 | 28,259 |
| Concessions sales, net of costs of goods sold of \$3,125 and \$2,354 in 2015 and 2014 | 279 | 1,082 |
| Interest income | 247 | 185 |
| Non-compliance fees | 1,700 | 800 |
| Miscellaneous revenue | <u>28,670</u> | <u>22,524</u> |
| | <u>440,923</u> | <u>400,682</u> |
| Expenses | | |
| Salaries - admin/pool/maintenance | 190,397 | 185,056 |
| Benefits, payroll taxes and workers compensation | 51,133 | 51,421 |
| Grounds/pools maintenance and supplies | 20,119 | 20,834 |
| Insurance | 22,713 | 21,687 |
| Clubhouse maintenance and supplies | 17,692 | 20,882 |
| Utilities | 24,708 | 23,365 |
| Professional services | 22,128 | 8,917 |
| Administrative services and supplies | 27,958 | 30,177 |
| Miscellaneous | 1,989 | 1,354 |
| Capital expenditures | 66,312 | 1,344 |
| Bad debt expense | -0- | 12,305 |
| Depreciation expense | 5,899 | 4,605 |
| Provision for income taxes (Note 4) | 301 | 87 |
| | <u>451,349</u> | <u>382,034</u> |
| Revenue Over (Under) Expenses | (10,426) | 18,648 |
| Equity transfer - capitalized equipment | 12,201 | -0- |
| Fund Balance, Beginning of Year | <u>126,492</u> | <u>107,844</u> |
| Fund Balance, End of Year | <u>\$ 128,267</u> | <u>\$ 126,492</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 FUND BALANCE
For the Years Ended December 31, 2015 and 2014
(See Independent Accountants' Review Report)

| | <u>2015</u> | <u>2014</u> |
|------------------------------------|---------------------|-------------------|
| Revenue | | |
| Members' dues | \$ 90,000 | \$ 50,000 |
| Interest income | 1,277 | 948 |
| | <u>91,277</u> | <u>50,948</u> |
| Expenses | | |
| Interest | 2,762 | -0- |
| Replacement fund expenses (Note 7) | 1,308,805 | 105,362 |
| | <u>1,311,567</u> | <u>105,362</u> |
| Revenue Over (Under) Expenses | (1,220,290) | (54,414) |
| Fund Balance, Beginning of Year | <u>495,692</u> | <u>550,106</u> |
| Fund Balance, End of Year | <u>\$ (724,598)</u> | <u>\$ 495,692</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, 2015 (with comparative totals for 2014)

(See Independent Accountants' Review Report)

| | 2015 | | | 2014 |
|---|----------------|------------------|----------------|-------------|
| | Operating Fund | Replacement Fund | Total | Total |
| Cash Flows from Operating Activities: | | | | |
| Revenue Under Expenses | \$ (10,426) | \$ (1,220,290) | \$ (1,230,716) | \$ (35,766) |
| Adjustments: | | | | |
| Capitalized replacement fund expenditures | 12,201 | -0- | 12,201 | -0- |
| Depreciation | 5,899 | -0- | 5,899 | 4,605 |
| Change in due (to) / from other funds | (51,380) | 51,380 | -0- | -0- |
| Change in assets other than cash and property & equipment | (17,191) | 443,962 | 426,771 | (23,145) |
| Change in payables and other liabilities | (2,010) | 10,895 | 8,885 | 78,956 |
| Total adjustments | (52,481) | 506,237 | 453,756 | 60,416 |
| Net Cash Provided (Used) by Operating Activities | (62,907) | (714,053) | (776,960) | 24,650 |
| Cash Flows from Investing Activities: | | | | |
| Acquisition of equipment | (12,201) | -0- | (12,201) | (6,521) |
| Net Cash Used for Investing Activities | (12,201) | -0- | (12,201) | (6,521) |
| Cash Flows from Financing Activities: | | | | |
| Issuance of note payable | -0- | 441,818 | 441,818 | -0- |
| Net Cash Provided by Investing Activities | -0- | 441,818 | 441,818 | -0- |
| Net Increase (Decrease) in Cash and Equivalents | (75,108) | (272,235) | (347,343) | 18,129 |
| Cash and equivalents - Beginning of Year | 358,780 | 486,639 | 845,419 | 827,290 |
| Cash and equivalents - End of Year | \$ 283,672 | \$ 214,404 | \$ 498,076 | \$ 845,419 |
| Supplementary Cash Flow Information: | | | | |
| Income taxes paid | \$ 200 | \$ -0- | \$ 200 | \$ -0- |

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

(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

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

(See Independent Accountants' Review Report)

account's collectability 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. 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.
 - J. The certificate of deposit held is classified as held-to-maturity investments as the Association's management has no intention to sell investments before their maturity date. The investments are valued at their amortized cost basis, which approximates their fair value due to the short term maturities of these instruments (which is one year or less).
3. Concentration of Credit Risk

The Association maintains demand and certificate of deposit accounts at various local banks. At December 31, 2015 and 2014, the aggregate balance of these accounts did not exceed the federally insured limits.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

(See Independent Accountants' Review Report)

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, 2015 and 2014 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 (benefit) for income taxes is as follows:

| | <u>2015</u> | <u>2014</u> |
|---------|---------------|--------------|
| Federal | \$ -0- | \$ (298) |
| State | <u>301</u> | <u>385</u> |
| | <u>\$ 301</u> | <u>\$ 87</u> |

Certain projects undertaken in 2014 and previous years were eligible for a federal disabled access tax credit. The expenditures for these projects are subject to maximum annual limits. As of December 31, 2015 and 2014, approximately \$8,397 and \$9,003, respectively of cumulative unused tax credits are available for use in future years to offset federal tax expense, subject to expiration if not used within certain time frames.

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.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

(See Independent Accountants' Review Report)

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. Replacement Fund Expenses

Replacement fund expenses for the year ending December 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|------------------|---------------------|-------------------|
| Pool project | \$ 1,304,088 | \$ -0- |
| Carpeting | 4,469 | -0- |
| Bathroom remodel | 248 | 105,362 |
| | <u>\$ 1,308,805</u> | <u>\$ 105,362</u> |

8. 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, 2015, the replacement fund owed the operating fund \$42,327. At December 31, 2014, the operating fund owed the replacement fund \$9,053.

9. Note Payable

In October of 2015, the Association entered into a secured agreement with a bank to fund a pool repair and renovation project which began in 2015. Borrowed funds may not exceed \$1,125,000 and are available to be drawn as a non-revolving line of credit for nine months. Until and including August 1, 2016, commencing with the first payment on December 1, 2015, interest only shall be payable monthly on the unpaid principal balance at a rate of 4.765%. Monthly principal and interest payments commence on September 1, 2016 and continue until principal and interest has been fully paid, no later than November 1, 2020. Monthly payments will be determined in August of 2016. The note is secured by the assets and future assessments of the Association and is subject to routine covenants.

GLENSHIRE/DEVONSHIRE RESIDENTS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

(See Independent Accountants' Review Report)

10. Commitment

In August of 2015, the Association entered into an agreement with a contractor for repair and renovation of the current pool for \$1,472,836. As of December 31, 2015, \$223,489 of expenditures remain to be incurred on the contract.

11. Special Assessment

In September of 2015, the Board approved an emergency special assessment of \$1,265,961 to fund the pool repair and renovation project. The assessment is \$933 per lot to be paid over five years in equal installments of \$187 beginning in 2016. An early one-time payment option is available for \$830 and must be paid by March 1, 2016.

12. 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 had been recovered by insurance. The Association did not recover any additional costs in 2014 and the remaining amount outstanding was written off as of December 31, 2014.

13. Subsequent Events

Subsequent events have been evaluated by management through March 2, 2016, the date that the statements were available for issuance.

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
December 31, 2015
(Unaudited)

(See Independent Accountants' Review Report)

The Association's management updated a study in 2015 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 cash available for major repairs and replacements were \$214,404 at December 31, 2015. The 2016 budget includes \$90,000 of dues and \$253,759 of special assessments 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 | 0-33 | 10-75 | \$ 1,847,302 |
| Grounds | 0-34 | 0-45 | 614,397 |
| Main pool | 0-34 | 0-35 | 1,353,015 |
| Office | 2-4 | 5-8 | 13,224 |
| Wading pool | 34 | 35 | 6,000 |
| | | | \$ 3,833,938 |