

McCORMICK RANCH PROPERTY OWNERS'
ASSOCIATION, INC.
(A Nonprofit Corporation)

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2007 AND 2006
AND
AUDITOR'S REPORT

MCCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors of
McCormick Ranch Property Owners' Association, Inc.

We have audited the accompanying balance sheets of McCormick Ranch Property Owners' Association, Inc., (a nonprofit corporation), as of December 31, 2007 and 2006, and the related statements of operations, fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Anderson, Church & Co.

March 10, 2008

McCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.
(A Nonprofit Corporation)

BALANCE SHEETS, DECEMBER 31, 2007 AND 2006

	2007	2006
<u>A S S E T S</u>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$1,374,059	\$1,384,892
Members' assessments receivable (Note 3)	70,949	55,107
Investments (Note 8)	846,023	986,274
Prepaid expenses	4,830	8,511
Total current assets	2,295,861	2,434,784
PROPERTY AND EQUIPMENT - At cost		
(Note 2):		
Land	323,990	323,990
Land improvements	1,081,237	782,500
Building	278,476	278,476
Machinery and equipment	717,793	677,608
Office furniture and fixtures	137,012	145,865
Total	2,538,508	2,208,439
Less accumulated depreciation	1,587,730	1,516,605
Total property - net	950,778	691,834
TOTAL	\$3,246,639	\$3,126,618

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:		
Accounts payable - Trade	\$ 31,713	\$ 88,266
Accrued liabilities and other	179,447	166,286
Members' assessments received in advance	23,229	31,676
Total current liabilities	234,389	286,228
FUND BALANCE:		
Contributed by developer (Note 2)	890,005	890,005
Unreserved	2,122,245	1,950,385
Total fund balance	3,012,250	2,840,390
TOTAL	\$3,246,639	\$3,126,618

See Accompanying Notes and Auditor's Report.

McCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.
(A Nonprofit Corporation)

STATEMENTS OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
REVENUES:		
Members' assessments	\$2,612,157	\$2,464,629
Interest income	149,003	101,300
Other	296,092	301,476
Total revenues	3,057,252	2,867,405
EXPENSES:		
Payroll and related expenses	1,641,568	1,546,233
Transportation	67,704	61,552
Other supplies	79,505	73,250
Water	315,579	298,117
Electricity	62,717	67,180
Professional services	70,907	84,563
Repairs and maintenance	413,936	385,130
Insurance	89,199	88,157
Lake maintenance	40,180	32,685
Property taxes	1,004	1,194
Rent	752	2,106
Other	24,705	27,371
Total expenses	2,807,756	2,667,538
EXCESS OF REVENUES OVER EXPENSES		
BEFORE GAIN ON SALE OF FIXED		
ASSETS AND DEPRECIATION		
	249,496	199,867
Gain (loss) on sale of fixed assets	3,400	
Unrealized gain (loss) on investments	11,513	(1,537)
Depreciation (Note 2)	(92,549)	(81,857)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES		
	171,860	116,473
FUND BALANCE, BEGINNING OF YEAR	2,840,390	2,723,917
FUND BALANCE, END OF YEAR	\$3,012,250	\$2,840,390

See Accompanying Notes and Auditor's Report.

McCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.
(A Nonprofit Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
INCREASE (DECREASE) IN CASH

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$ 171,860	\$ 116,473
Adjustment to reconcile excess revenues to net cash provided by operating activities:		
(Gain) loss on sale of fixed assets	(3,400)	
Unrealized (gain) loss on investments	(11,513)	1,537
Depreciation	92,549	81,857
Net changes in:		
Assessments receivable	(15,842)	19,012
Prepaid expenses	3,681	(246)
Accounts payable	(56,553)	27,886
Accrued liabilities and other	13,161	20,349
Members assessments paid in advance	(8,447)	(7,549)
Net cash provided by operating activities	185,496	259,319
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		(202,928)
Proceeds from sale of investments	151,764	
Purchase of property and equipment	(352,593)	(87,630)
Proceeds from sale of fixed assets	4,500	
Net cash used by investing activities	(196,329)	(290,558)
NET INCREASE (DECREASE) IN CASH	(10,833)	(31,239)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,384,892	1,416,131
CASH AND CASH EQUIVALENTS, END OF YEAR	\$1,374,059	\$1,384,892

See Accompanying Notes and Auditor's Report.

McCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.
(A Nonprofit Organization)

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION OF THE ASSOCIATION

The Association was incorporated under the laws of the State of Arizona as a nonprofit corporation on September 21, 1972, to provide for orderly development, maintenance, preservation and architectural control of owners' property and common area within the 4236 acre McCormick Ranch development located in Scottsdale, Arizona.

McCormick Ranch owners of assessable property are members of the Association. Under the Declaration of Covenants (as amended) and the Association By-Laws, the owners of the assessable property are required to make certain annual payments, and nonmembers are required to pay special use fees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) Property and equipment - Land and land improvements that were contributed to the Association by the developer are recorded at the developer's cost or estimated fair market value, as of the transfer date. Depreciation is provided using the straight-line method over the estimated useful lives of the property as follows: land improvements, fifteen years; building, forty years; machinery and equipment, one to five years; furniture and fixtures, three to five years. Depreciation expense for the years ended December 31, 2007 and 2006 was \$92,549 and \$81,857, respectively.
- b) Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- c) Cash equivalents - Cash equivalents for purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- d) Accumulated unpaid time off - Paid time off pay and other benefits are accrued when earned. Upon termination employees are paid the unused paid time off pay at current pay rates.

3. ACCOUNTS RECEIVABLE

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are considered delinquent. It is the opinion of the board of directors that the Association will ultimately collect from homeowners whose assessments are delinquent, and, accordingly, no allowance for uncollectible accounts is deemed necessary.

4. REPLACEMENT RESERVES

The Association has estimated the remaining lives and methods of funding future repairs, replacement or additions to existing facilities, which the Association is obligated to maintain.

Actual expenditures, however, may vary from the estimated amounts. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to membership approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

5. PENSION PLAN

The Association's plan was amended to cover all full-time employees over 21 years old who have completed one year of employment, in order to comply with changes in federal regulations. The Board of Directors determines the annual contribution, which currently is 5% of the members' compensation for 2007. Total pension expense for 2007 and 2006 was \$56,580 and \$54,987, respectively.

	<u>2007</u>	<u>2006</u>
Total plan assets at December 31,	<u>\$1,278,854</u>	<u>\$1,201,689</u>

6. CONCENTRATION OF CREDIT RISK

The Association maintains their cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2007, the Association exceeded the insured limit by approximately \$40,100.

7. INCOME TAXES

The Association is exempt from Federal and state income taxes as prescribed under §501(c)(4) of the Internal Revenue Code and the Arizona Revised Statutes.

8. INVESTMENTS

The Association accounts for investments under SFAS No. 124, Accounting of Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, the Association is required to report investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value.

9. OPERATING LEASE

The Association leases a copy machine under an operating lease. The copy machine lease payments are \$699 per month for three years, beginning November 2006. Rental expense for the year ended December 31, 2007 was \$8,388.

The Association's commitment over the next five years is as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2008	\$ 8,388
2009	6,990
Thereafter	<u>-</u>
Total	<u>\$15,378</u>

Anderson, Church & Co

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INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
McCormick Ranch Property Owners'
Association, Inc.

The supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements of McCormick Ranch Property Owners' 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 on it.

Anderson, Church & Co.

March 10, 2008

McCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.
(A Nonprofit Corporation)

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2007

The Association's Executive Director, Assistant Executive Director and Director of Maintenance conducted a study in October of 1994 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs take into account the effects on inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest hundred dollars.)

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance at December 31, 2007
Certain Improvements	3 - 10	\$ 56,100	\$ -
Building Improvements and Roof	20 - 31	36,300	-
Machinery and Equipment	3 - 10	594,300	-
Furniture and Fixtures	3 - 5	<u>115,500</u>	-
TOTAL		<u>\$802,200</u>	\$ -

See Accompanying Auditor's Report.
