

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

FINANCIAL STATEMENTS
FOR THE
YEARS ENDED DECEMBER 31, 2008 AND 2007
AND
AUDITOR'S REPORT

MCCORMICK RANCH PROPERTY OWNERS' ASSOCIATION, INC.

FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
Independent auditor's report	1
Financial statements:	
Balance sheets	2
Statements of operations and changes in members' equity	3
Statements of cash flows	4
Notes to financial statements	5 - 8
Supplemental schedule:	
Information on future major repairs and replacements	9

Anderson, Church & Co

CERTIFIED PUBLIC ACCOUNTANTS

5502 S. LAKESHORE DR. #3
TEMPE, ARIZONA 85283-5500
TEL (480) 820-4848
FAX (480) 820-5083
E-MAIL CPA@ACCOAZ.COM

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of McCormick Ranch Property Owners' Association, Inc., (a nonprofit corporation), as of December 31, 2008, and the related statements of operations, changes in members' equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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 McCormick Ranch Property Owners' Association, Inc. as of December 31, 2008 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information about future major repairs and replacements is not a required part of the basic financial statements 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

June 12, 2009

Anderson, Church & Co

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

BALANCE SHEETS, DECEMBER 31, 2008 AND 2007

	2008	2007
<u>A S S E T S</u>		
CURRENT ASSETS:		
Cash and cash equivalents-general (Note 3)	\$1,794,339	\$1,374,059
Cash and cash equivalents-designated	4,119	-
Members' assessments receivable (Note 4)	80,845	70,949
Investments	196,810	834,031
Interest receivable	7,778	11,992
Prepaid expenses	4,830	4,830
Total current assets	2,088,721	2,295,861
PROPERTY AND EQUIPMENT - At cost (Note 2):		
Land	323,990	323,990
Land improvements	1,560,084	1,081,237
Building	275,667	278,476
Machinery and equipment	761,409	717,793
Office furniture and fixtures	87,798	137,012
Total	3,008,948	2,538,508
Less accumulated depreciation	1,586,554	1,587,730
Total property - net	1,422,394	950,778
TOTAL	\$3,511,115	\$3,246,639
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable - trade	\$ 38,581	\$ 31,713
Accrued liabilities and other	195,541	179,447
Members' assessments received in advance	35,404	23,229
Total current liabilities	269,526	234,389
MEMBERS' EQUITY:		
Contributed by developer (Note 2)	890,005	890,005
Board designated	4,119	-
Undesignated	2,347,465	2,122,245
Total members' equity	3,241,589	3,012,250
TOTAL	\$3,511,115	\$3,246,639

See Accompanying Notes and Auditor's Report.

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

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
REVENUES:		
Members' assessments	\$2,885,951	\$2,612,157
Interest income	55,834	149,003
Other	213,907	296,092
Total revenues	<u>3,155,692</u>	<u>3,057,252</u>
EXPENSES:		
Payroll and related expenses	1,697,799	1,641,568
Transportation	75,484	67,704
Other supplies	73,831	79,505
Water	341,475	315,579
Electricity	55,247	62,717
Professional services	110,941	70,907
Repairs and maintenance	354,400	413,936
Insurance	87,003	89,199
Lake maintenance	44,569	40,180
Property taxes	642	1,004
Rent	309	752
Other	20,390	24,705
Total expenses	<u>2,862,090</u>	<u>2,807,756</u>
EXCESS OF REVENUES OVER EXPENSES		
BEFORE GAIN ON SALE OF FIXED		
ASSETS AND DEPRECIATION	293,602	249,496
Gain (loss) on sale of fixed assets	30,956	3,400
Other		11,513
Depreciation (Note 2)	(95,219)	(92,549)
EXCESS (DEFICIENCY) OF REVENUES OVER		
EXPENSES	229,339	171,860
MEMBERS' EQUITY, BEGINNING OF YEAR	<u>3,012,250</u>	<u>2,840,390</u>
MEMBERS' EQUITY, END OF YEAR	<u>\$3,241,589</u>	<u>\$3,012,250</u>

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, 2008 AND 2007
INCREASE (DECREASE) IN CASH

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$ 229,339	\$ 171,860
Adjustment to reconcile excess revenues to net cash provided by operating activities:		
(Gain) loss on sale of fixed assets	(30,956)	(3,400)
Other		(11,513)
Depreciation	95,219	92,549
Net changes in:		
Assessments receivable	(9,896)	(15,842)
Interest Receivable	4,214	3,681
Prepaid expenses		
Accounts payable	6,868	(56,553)
Accrued liabilities and other	16,094	13,161
Members assessments paid in advance	12,175	(8,447)
Net cash provided/(used) by operating activities	<u>323,057</u>	<u>185,496</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Designated cash	(4,119)	
Proceeds from sale of investments	637,222	151,764
Purchase of property and equipment	(571,680)	(352,593)
Proceeds from sale of fixed assets	35,800	4,500
Net cash provided/(used) by investing activities	<u>97,223</u>	<u>(196,329)</u>
NET INCREASE (DECREASE) IN CASH	420,280	(10,833)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,374,059</u>	<u>1,384,892</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$1,794,339</u>	<u>\$1,374,059</u>

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) Revenue - Revenue is recognized when earned rather than when received. Advance payment, if any, of membership dues are deferred for reporting purposes until the future period to which they apply.
- b) Income taxes - The Association is exempt from Federal and state income taxes as prescribed under §501(c)(4) of the Internal Revenue Code, as amended, and the Arizona Revised Statutes.
- c) Property and equipment - Property and equipment are stated at cost. Contributed property and equipment is recorded at fair market value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the property as follows:

Buildings and improvements	7 to 30 years
Furniture and fixtures	5 to 10 years
Office equipment	5 years
Maintenance equipment	4 to 10 years
Recreation equipment	5 to 10 years
Pumps and motors	5 to 10 years

Depreciation expense for the years ending December 31, 2008 and 2007 was \$95,219 and \$92,549, respectively.

- d) Accumulated unpaid vacation pay - Vacation pay and other benefits are accrued when incurred. Upon termination, employees are paid the unused vacation pay at current pay rates. Unused sick leave is not paid at termination.
- e) Consideration 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 of \$250,000. At December 31, 2008, the Association exceeded the insured limit by approximately \$75,000.
- f) 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.
- h) Comparative financial information - The 2008 financial statements include certain 2007 comparative information. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2007 from which the summarized information was derived.

3. CASH AND CASH EQUIVALENTS

Cash equivalents are considered by the Association to include all highly liquid debt instruments purchased with maturities of three months or less.

Cash balances at December 31, 2008, consist of the following:

	<u>General</u>	<u>Designated</u>	<u>Total</u>
General Checking Accounts	\$ 96,644	\$4,119	\$ 100,763
Money Market Accounts	1,293,951		1,293,951
Certificates of Deposit	403,644		403,644
Petty Cash	100		100
	<u>\$1,794,339</u>	<u>\$4,119</u>	<u>\$1,798,458</u>

4. 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.

5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association is funding major repairs and replacements over the estimated useful lives of the components by estimating current replacement costs. 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 member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Accumulated funds which aggregate approximately \$4,100 at December 31, 2008 are held in separate designated accounts and are generally not available for operating purposes.

6. DESIGNATED FUNDS

The Board of Directors has designated a certain portion of operations fund equity to provide for future enhancements and improvements for the benefit of Association members. These enhancements are different than the monies set aside in the reserves for future major repairs and replacements, as defined in the reserve study. The designated funds have been earmarked for significant landscape enhancements and building improvements.

7. 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 2008. Total pension expense for 2008 and 2007 was \$59,758 and \$56,580, respectively.

	<u>2008</u>	<u>2007</u>
Total plan assets at December 31,	\$ 881,873	\$1,278,854

8. 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.

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, 2008 was \$8,388.

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

<u>Year Ended</u>	<u>Amount</u>
<u>December 31</u>	
2009	\$6,990
Thereafter	<u>-</u>
Total	<u>\$6,990</u>

SUPPLEMENTAL SCHEDULE

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

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008

The Association's Executive Director, Assistant Executive Director and Director of Maintenance conducted a study 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, 2008
Certain Improvements	3 - 10	\$ 56,100	\$ -
Building Improvements and Roof	20 - 31	36,300	
Machinery and Equipment	3 - 10	594,300	4,100
Furniture and Fixtures	3 - 5	115,500	
TOTAL		<u>\$802,200</u>	<u>\$ 4,100</u>

See Accompanying Auditor's Report.