

# ALLEN & COOK, INC.

CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors  
Shadow Brook Swim Club and Homeowners Association

We have reviewed the accompanying balance sheet of Shadow Brook Swim Club and Homeowners Association as of February 28, 2007, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 management of Shadow Brook Swim Club and Homeowners Association.

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 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 conformity with generally accepted accounting principles.

The supplementary information about future repairs and replacements not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of Shadow Brook Swim Club and Homeowners Association, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

*Allen & Cook, Inc.*

December 21, 2007

**Shadow Brook Swim Club and Homeowners Association**

Balance Sheet  
February 28, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 11,360		11,360
Accounts receivable - members	2,993		2,993
Investment in certificates of deposit		53,258	53,258
Prepaid insurance	3,473		3,473
Property and equipment, net of accumulated depreciation of \$162,940	<u>119,897</u>		<u>119,897</u>
 Total Assets	 <u><u>137,723</u></u>	 <u><u>53,258</u></u>	 <u><u>190,981</u></u>
 <b>LIABILITIES AND FUND BALANCES:</b>			
Accounts payable	930		930
Other liabilities	<u>513</u>		<u>513</u>
 Total Liabilities	 1,443		 1,443
 <b>Fund Balances</b>	 <u>136,280</u>	 <u>53,258</u>	 <u>189,538</u>
 Total Liabilities and Fund Balances	 <u><u>\$ 137,723</u></u>	 <u><u>53,258</u></u>	 <u><u>190,981</u></u>

SEE NOTES TO FINANCIAL STATEMENTS  
SEE ACCOUNTANT'S REVIEW REPORT

**Shadow Brook Swim Club and Homeowners Association**  
Statement of Revenue and Expenses and Changes in Fund Balances  
Year Ended February 28, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
<b>REVENUE:</b>			
Regular assessments (Note B)	\$ 77,750	17,650	95,400
Associate member dues	30,050		30,050
Swim lessons	24,994		24,994
Interest on savings (Note A-3)		1,517	1,517
Other income	<u>37,372</u>		<u>37,372</u>
 Total Revenue	 170,166	 19,167	 189,333
<b>EXPENSES:</b>			
Swim team expense	15,742		15,742
Insurance	19,623		19,623
Legal and accounting	1,002		1,002
Other administrative expenses	23,628		23,628
Depreciation	4,090		4,090
Gas and electricity	14,746		14,746
Water and sewer	3,931		3,931
Garbage removal	1,900		1,900
Other utilities	511		511
Landscape maintenance	12,074		12,074
Pool service and supplies	15,583		15,583
Swim lessons	10,363		10,363
Payroll expense	35,739		35,739
Payroll tax	5,224		5,224
Other common area maintenance	<u>3,596</u>	<u>60,894</u>	<u>64,490</u>
 Total Expenses	 <u>167,752</u>	 <u>60,894</u>	 <u>228,646</u>
 Excess (deficiency) of revenue over expense	 2,414	 (41,727)	 (39,313)
 Beginning fund balance	 177,110	 51,741	 228,851
 Changes to fund balances:			
Additional allocation to the replacement fund	<u>(43,244)</u>	<u>43,244</u>	<u>          </u>
 Ending fund balance	 <u>\$ 136,280</u>	 <u>53,258</u>	 <u>189,538</u>

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**Shadow Brook Swim Club and Homeowners Association**

Statement of Cash Flows

Year Ended February 28, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total Funds</u>
Cash Flows From Operating Activities:			
Excess (deficiency) of revenue over expenses	2,414	(41,727)	(39,313)
Adjustments to reconcile net income to net cash provided by operating activities:			
Interfund transfers	(43,244)	43,244	
(Increase) - Decrease in:			
Accounts receivable	(1,565)		(1,565)
Prepaid insurance	129		129
Other assets	4,325		4,325
Increase - (Decrease) in:			
Accounts payable	(2,492)		(2,492)
Other liabilities	<u>293</u>		<u>293</u>
Net cash flows from operating activities	<u>(40,140)</u>	<u>1,517</u>	<u>(38,623)</u>
Cash Flows From Investing Activities:			
Purchase of certificates of deposit		<u>(1,517)</u>	<u>(1,517)</u>
Net cash flows from investing activities		<u>(1,517)</u>	<u>(1,517)</u>
Net increase(decrease) in cash	(40,140)		(40,140)
Cash at beginning of year	<u>51,500</u>		<u>51,500</u>
Cash at end of year	<u><u>11,360</u></u>		<u><u>11,360</u></u>

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Shadow Brook Swim Club and Homeowners Association  
Notes To Financial Statements  
February 28, 2007

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Organization

The Association was incorporated May 13, 1968, to provide for the orderly maintenance, preservation, and architectural control of the common areas within the development, which consists of 318 single family homes located in the City of San Jose, California, including pool, pool buildings and grounds.

The Association derives its authority and responsibilities from its Declaration of Covenants, Conditions and Restrictions. An elected Board of Directors makes most policy decisions and oversees daily operations, but major decisions are referred to the general association membership if required by the governing documents.

Membership in the Association is mandatory for homeowners. Voting members consist of all owners. Each owner is obligated to pay annual assessments to the Association to support its operations and purposes.

A three person Architectural Control Committee assists the Board in evaluation of homeowner request for changes to the exterior structure of homes. The Architectural Control Committee also with Board approval enforces policies passed and revised from time to time which promotes the general upkeep and aesthetic qualities of homes and common areas within the boundaries of the Association

(2) Funds

Since the Association is a not-for-profit organization, the accompanying financial statements have been prepared using a fund method of accounting. Under this method of accounting, funds are separated into two categories, operating funds and replacement funds. Operating funds are those whose disposition is at the discretion of the Board of Directors and are generally used for regular operating expenses. Replacement funds are those funds that have been limited to specific purposes by the membership or the Board of Directors.

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Shadow Brook Swim Club and Homeowners Association  
Notes To Financial Statements  
February 28, 2007

(A) - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES-Continued

(3) Interest Earned

It is the policy of the Board of Directors that interest earned on restricted savings is restricted and is transferred to the replacement fund when earned.

(4) Capitalization Policy and Depreciation

Property and equipment are being depreciated over their useful lives using the straight line method. This policy of capitalization extends to buildings, property and equipment capitalized prior to 2001. After that period the Association follows the industry wide practice of not capitalizing and charging directly to the operating or replacement fund in the period incurred.

(5) Statement of Cash Flow Information

For purposes of the Statement of Cash Flows, the Association considers all short-term investments with maturity at date of purchase of three months or less to be cash equivalents.

(6) Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on other assets of the unit owner.

(7) 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 and disclosure of contingent 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.

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Shadow Brook Swim Club and Homeowners Association  
Notes To Financial Statements  
February 28, 2007

(B) - REGULAR ASSESSMENTS

During the fiscal year ended February 28, 2007, regular annual assessments were payable to the Association in an annual installment of \$300 per unit.

The annual budget and owners' assessments are determined by the Board of Directors and the homeowners. Annual budgets are approved and assessments are divided between the operating fund to meet normal operating costs and contributions to the replacement funding program.

Delinquent assessments may be secured by a lien on the property against which the assessments are made, and the Association has the power to foreclose the property of any owner who fails to pay assessments.

It is the Association policy that any excess operating funds at the end of a fiscal year be applied to the following year's assessment.

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM

Restricted funds represent amounts designated for specific uses by the membership or Board of Directors; generally these funds are set-aside in interest bearing accounts to be retained for the designated purpose. Restricted replacement funds are amounts to be spent on future repair and replacement of selected Association common areas.

A long-term, formal funding program is one that is based on a study that identifies specific common area components such as roofs, streets, paint, decks, etc., the expected replacement costs and expected remaining service lives of each, and provides a plan for accumulating over time the funds that will be needed to replace each major item at the time that replacement becomes necessary.

An independent formal study to determine the adequacy of the current funding program for the replacement of selected Association common area components was conducted by Board of Directors in 2004. The 2007/2008 budget, which was approved by the Board of Directors in January 2007, incorporates the current funding requirements determined by the study.

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Shadow Brook Swim Club and Homeowners Association  
Notes To Financial Statements  
February 28, 2007

(C) - RESTRICTED FUNDS AND REPLACEMENT FUNDING PROGRAM-Continued

Actual expenditures may vary from the estimated amounts 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, 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.

(D) - INCOME TAXES

Shadow Brook Swim Club and Homeowners Association is an exempt organization under Section 501(c)(7) of the Internal Revenue Code. The Association is required to file the appropriate tax forms for this type of entity

(E) - PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consist of the following

Land	\$ 30,000
Buildings and Structures	161,105
Furniture and Fixtures	11,615
Machinery and Equipment	<u>80,117</u>
	282,837
Less Accumulated Depreciation	<u>(162,940)</u>
	<u>\$ 119,897</u>

Shadow Brook Swim Club and Homeowners Association  
 Supplementary Information On Future Major Repairs And Replacements (Unaudited)  
 February 28, 2007

The Board of Directors conducted a study in 2004, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future replacement costs at the date of the study. Estimated current replacement costs have been adjusted to reflect a 3% inflation factor between the date of the study and the date that the components will require repair and replacement. A 2% after tax interest rate has been applied to the cash flow.

The following table is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Costs</u>
Building "A"		\$
Roof	50 yrs	69,000
Painting	7 yrs	5,000
Bathrooms	10 yrs	10,000
Pump Room		
Heaters	10 yrs	9,800
Filtering System	10 yrs	8,200
Chlorinator	10 yrs	5,800
Building "B"		
Roof	50 yrs	52,000
Painting	7 yrs	5,000
Pool Ground		
Re-plaster pools	8 yrs	32,500
Replace gazebo	15 yrs	24,500
Replace concrete deck	40 yrs	50,000
Replace fence	10 yrs	10,000
Seal / resurface parking lot	2-30 yrs	17,800
Pool deck maintenance / pool covers	1-10 yrs	5,000
Total		<u>\$ 304,600</u>

The Association uses the cash flow method of funding the replacement fund. Under the cash flow method, the funding for each individual component is not separately calculated. The actual fund balance at February 28, 2007 is \$53,258 with expected contributions of \$11,739 for the year ending February 28, 2008.