

CASTLEGATE COMMUNITY ASSOCIATION

**COMPILATION REPORT
OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES – CASH BASIS**

For The Year Ended December 31, 2007

CASTLEGATE COMMUNITY ASSOCIATION

COMPILATION REPORT

For the Year Ended December 31, 2007

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Accountants' Report

**Statement of Cash Receipts, Disbursements and
Changes in Cash Balances – Cash Basis**

Notes to the Financial Statement

A C PROFESSIONAL SERVICES

Professional Corporation

P O Box 30141

Phoenix, Arizona

May 1, 2008

Board of Directors
Castlegate Community Association
Queen Creek, Arizona

We have compiled the statement of cash receipts, disbursements and changes in cash balances – cash basis of the operating and reserve accounts of Castlegate Community Association, for the year ended December 31, 2007. All information in this financial statement is the representation of Kachina Management, Inc., the management company for Castlegate Community Association.

The compilation is limited to presenting in the form of financial statements, information that is the representation of management. We have not audited or reviewed the accompanying financial statement and, accordingly, do not express an opinion or any other form of assurance on such statement.

As described in Note 2, the Association's policy is to prepare its financial statements on the cash basis method of accounting. Accordingly, the accompanying financial statement is not intended to present financial position, results of operations, and changes in cash position in conformity with generally accepted accounting principles.

AC Professional Services

CASTLEGATE COMMUNITY ASSOCIATION
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For the year ended December 31, 2007

	<u>2007</u>	<u>%</u>
Receipts:		
Assessments	552,398	88.6%
Other Income	32,889	5.3%
Developer Assessments	17,678	2.8%
Interest Income	14,200	2.3%
Working Capital	4,500	0.7%
Reserve Assessment	1,800	0.3%
Special Assessment	20	0.0%
Total Receipts	<u>623,485</u>	<u>100.0%</u>
Disbursements:		
Maintenance & Repair:		
Landscape Contract	211,400	33.9%
Contract Service	19,947	3.2%
Weed Control / Fertilizer	11,970	1.9%
Wall Maintenance	2,500	0.4%
	<u>245,817</u>	<u>39.4%</u>
Parts & Supplies:		
Landscape Material	30,659	4.9%
Irrigation Supplies	10,454	1.7%
	<u>41,113</u>	<u>6.6%</u>
Utilities:		
Garbage Collection	164,763	26.4%
Water	118,157	19.0%
Street Lights	3,970	0.6%
Electric	974	0.2%
	<u>287,864</u>	<u>46.2%</u>

CASTLEGATE COMMUNITY ASSOCIATION
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For the year ended December 31, 2007

Administrative Expenses:		
Management Services	69,305	11.1%
Legal Fees	27,843	4.5%
Audits / Taxes	14,283	2.3%
Insurance	13,497	2.2%
Postage/Copies	9,822	1.6%
Bank Fees	2,830	0.5%
Miscellaneous	10	0.0%
	<u>137,590</u>	<u>22.2%</u>
Total Disbursements	<u>712,384</u>	<u>114.4%</u>
Total Receipts Over (Under) Disbursements	(88,899)	<u><u>-14.4%</u></u>
Decrease In Prepaid Owner Assessments	(20,356)	
Change in Utility Deposits	1,280	
Cash Balances, Beginning of Year	<u>343,451</u>	
Cash Balances, End Of Year (Note 4)	<u><u>235,476</u></u>	

CASTLEGATE COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENT

December 31, 2007

NOTE 1: NATURE AND ORGANIZATION

Castlegate Community Association, a non-stock homeowners' association, was incorporated on June 6, 2003 under the general non-profit laws of the State of Arizona. The Association was organized for the purpose of managing and maintaining common areas, holding title to property, and maintaining architectural control. A board of directors is elected by the member homeowners. The Board of Directors has engaged Kachina Management, Inc. as the Association's managing agent.

NOTE 2: BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As mentioned in Note 1, the Association holds title to common area property. Any land, building or improvements that were paid for by the developer, including the common area, will have zero tax basis because the developer deducted the costs on their tax returns. The Association cannot take depreciation on the common area costs that were paid by the developer. Any repairs or improvements paid for by the Association have been deducted as operating expenses under special rules for a homeowners' association (See Note 3 on income taxes below).

The statement of cash receipts and disbursements is a summary of the cash activity of the Association and does not present transactions that would be included in financial statements of the Association presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles. Accordingly, the accompanying financial statements are not intended to present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Most homeowners' associations prepare their financial statements on the cash basis method of accounting because their budgets are on the cash basis. Cash basis financial statements are easier to understand, easier to prepare, and more economical to prepare.

See accountants' compilation report.

CASTLEGATE COMMUNITY ASSOCIATION

NOTES TO FINANCIAL STATEMENT

December 31, 2007

NOTE 3 INCOME TAXES

Homeowners' associations have the option each year of filing federal income tax returns as a homeowners' association on Form 1120-H, or as a regular corporation on Form 1120. Homeowners' associations filing Form 1120-H are required to pay a 30% tax on non-member receipts such as dividends and interest that exceed \$100.

An association filing as a regular corporation files Form 1120 and pays tax at regular corporate rates, of which the lowest rate is 15%, on excess operating receipts plus non-member source receipts. Any excess operating disbursements can be carried over to offset any excess operating receipts if Form 1120 is filed the following year. However, a carryover of excess operating disbursements cannot be used to offset non-member source receipts such as interest and dividends.

Arizona requires homeowners' associations to file as regular corporations. Arizona income tax is based on federal taxable income after adding back any Arizona adjustments and deducting any excess disbursements carryover from prior years. A minimum tax of \$50 is imposed on Arizona corporations.

NOTE 4: CASH

Cash consists of the following at the year-end:

	<u>12/31/07</u>
Checking	\$ 11,613
Savings	33,830
Certificates of Deposit	<u>190,033</u>
Total cash	\$ <u>235,476</u>

NOTE 5: RESERVE FUNDS

The Association has established and is maintaining reserve funds for the periodic maintenance, repair, replacement, or improvement to the general common elements which the Association and the Board are obligated to maintain. It is very important that the Board plans for the major repairs and improvements that will be required over the next several years, and projects the necessary reserves and special assessments for their completion. It is not required that we audit the adequacy of the reserve funds. The Board of Directors has the responsibility to determine the adequacy of reserve funds.

See accountants' compilation report.