

ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2005 and 2004

**“TENTATIVE & PRELIMINARY”
For Discussion Purposes Only**

ASPEN GROVE CONDOMINIUM ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aspen Grove Condominium Association

We have audited the accompanying balance sheets of Aspen Grove Condominium Association as of October 31, 2005 and 2004, and the related statements of operating revenue, expenses and changes in members' equity, replacement revenue, expenses and changes in members' equity 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. Those standards require that we plan and perform the audits 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 Aspen Grove Condominium Association as of October 31, 2005 and 2004, 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.

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
December 15, 2005

"TENTATIVE & PRELIMINARY"
For Discussion Purposes Only

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

BALANCE SHEETS October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 38,410	\$ 35,533
Cash, designated for future major repairs and replacements	45,402	21,588
Investments, designated for future major repairs and replacements (Note 3)	2,237,512	2,152,594
Dues receivable	5,712	6,581
Interest receivable	14,255	15,340
Prepaid taxes	299	3,034
	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,341,590</u>	<u>\$ 2,234,670</u>
 LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 16,501	\$ 17,207
Accrued income taxes	660	1,096
Deferred income	8,219	12,255
	<u> </u>	<u> </u>
Total Liabilities	<u>25,380</u>	<u>30,558</u>
Members' Equity		
Operating fund	43,301	30,039
Replacement fund	2,272,909	2,174,073
	<u> </u>	<u> </u>
Total Members' Equity	<u>2,316,210</u>	<u>2,204,112</u>
	<u> </u>	<u> </u>
Total Liabilities and Members' Equity	<u>\$ 2,341,590</u>	<u>\$ 2,234,670</u>

"TENTATIVE & PRELIMINARY"
The accompanying notes are an integral part of these statements.
For Discussion Purposes Only

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit B

STATEMENTS OF OPERATING REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY

For the Years Ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue		
Dues	\$ 448,704	\$ 427,788
Less: dues allocated to Replacement fund (Note 7)	<u>(15,164)</u>	<u>(19,318)</u>
	433,540	408,470
Utilities fees	16,704	16,704
Bank interest income	71	49
Late charges and member interest	440	490
Insurance proceeds	32,894	-0-
Other income	<u>180</u>	<u>223</u>
Total Revenue	<u>483,829</u>	<u>425,936</u>
Expenses		
Maintenance and Operations		
Building maintenance	86,579	94,084
Grounds maintenance	36,810	24,927
Staining	34,806	31,335
Snow removal	87,390	67,584
Security	32,780	32,086
Pest control	<u>5,199</u>	<u>5,273</u>
	<u>283,564</u>	<u>255,289</u>
Utilities		
Electricity	20,381	17,170
Water	<u>41,023</u>	<u>40,360</u>
	<u>61,404</u>	<u>57,530</u>
Administrative and General		
Management fee (Note 5)	48,000	48,000
Insurance	57,682	54,644
Meetings	4,763	4,507
Legal	3,020	3,041
Audit and tax fees	4,400	4,006
Reserve study	3,850	-0-
Office	3,867	3,930
Provision for income taxes (Note 6)	<u>17</u>	<u>12</u>
	<u>125,599</u>	<u>118,140</u>
Total Expenses	<u>470,567</u>	<u>430,959</u>
Revenue Over (Under) Expenses	13,262	(5,023)
Members' Equity, Beginning of Year	<u>30,039</u>	<u>35,062</u>
Members' Equity, End of Year	<u>43,301</u>	<u>\$ 30,039</u>

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ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit C

STATEMENTS OF REPLACEMENT REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY

For the Years Ended October 31, 2005 and 2004

	2005	2004
Revenue		
Dues	\$ 15,164	\$ 19,318
Investment income	109,871	109,540
Total Revenue	<u>125,035</u>	<u>128,858</u>
Expenses		
Asphalt pathways	-0-	36,571
Siding replacement	-0-	21,355
Water line replacement	(193)	-0-
Provision for income taxes (Note 6)	<u>26,392</u>	<u>27,304</u>
Total Expenses	<u>26,199</u>	<u>85,230</u>
Revenue Over Expenses	98,836	43,628
Members' Equity, Beginning of Year	<u>2,174,073</u>	<u>2,130,445</u>
Members' Equity, End of Year	<u><u>\$ 2,272,909</u></u>	<u><u>\$ 2,174,073</u></u>

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ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit D

STATEMENTS OF CASH FLOWS

For the Years Ended October 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities:		
Cash received from owners and others	\$ 495,755	\$ 445,562
Cash paid to suppliers and contractors	(471,063)	(479,802)
Interest received	60,109	46,866
Income taxes paid	(24,110)	(26,874)
Net Cash Provided (Used) by Operating Activities	<u>60,691</u>	<u>(14,248)</u>
Cash Flows from Investing Activities:		
Purchase of designated investments	(555,000)	(280,000)
Maturity of designated investments	<u>521,000</u>	<u>190,000</u>
Net Cash Used by Investing Activities	<u>(34,000)</u>	<u>(90,000)</u>
Net Increase (Decrease) in Cash	26,691	(104,248)
Cash, Beginning of the Year	<u>57,121</u>	<u>161,369</u>
Cash, End of the Year	<u>\$ 83,812</u>	<u>\$ 57,121</u>
Analysis of Cash:		
Cash, undesignated	\$ 38,410	\$ 35,533
Cash, designated for future major repairs and replacements	<u>45,402</u>	<u>21,588</u>
	<u>\$ 83,812</u>	<u>\$ 57,121</u>
Reconciliation of Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:		
Revenue Over (Under) Expenses	<u>\$ 13,262</u>	<u>\$ (5,023)</u>
Adjustments:		
Replacement fund assessments	15,164	19,318
Replacement fund investment income	109,871	109,540
Replacement fund expenses	(26,199)	(85,230)
Change in assets other than cash and investments	4,689	(2,421)
Change in liabilities	(5,178)	9,247
Amortization of discounts on investments	<u>(50,918)</u>	<u>(59,679)</u>
Total Adjustments	<u>47,429</u>	<u>(9,225)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 60,691</u>	<u>\$ (14,248)</u>

"TENTATIVE & PRELIMINARY"
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ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2005 and 2004

1. Form of Organization

Aspen Grove Condominium Association (the "Association") is a non-profit mutual benefit corporation organized under the laws of the State of California. The Association's members consist of those persons or entities who own units at the Aspen Grove Condominiums at Northstar near Truckee, California. The Association was organized to provide management services and maintenance of certain common use areas and the exterior of the units within the condominium development. The Association is supported by monthly assessments of the 180 units in the development.

2. Summary of Significant Accounting Policies

- A. The Association's governing documents and policies adopted by the Board of Directors 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. Investments in debt securities are stated at cost as adjusted for amortization of premiums or discounts.
- C. 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. Those properties are owned in common by the individual unit owners and not by the Association.
- D. Association members are subject to monthly assessments that provide funds for the Association's operating expenses and major repairs and replacements. Dues receivable at the balance sheet date represent fees due from unit owners. The Association's policy includes, among other things, assessing a late charge on delinquent payments and retaining legal counsel to place liens on the property of homeowners whose assessments are delinquent. An allowance for doubtful accounts is created when an account's collectibility 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. The Association derives a significant portion of its revenue from dues assessments that are levied against each lot within

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2005 and 2004

the development.

- E. The Association is taxed as a regular corporation. Member revenue can be offset to the extent of member expenses. 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, other amounts received by the Association, such as investment income, are taxed net of related expenses for federal and state purposes.
- F. The Association earns interest on investments and money market demand accounts. Investment earnings and related income taxes are recorded in the fund holding the investment.
- G. Deferred income represents assessments received during the current year which are applicable to the following year.
- H. For purposes of the statements of cash flows, cash is defined as amounts held in the Association's checking account and money market account.
- I. 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.

3. Investments

Investments consist of investments in debt securities and certificates of deposit. Certificates of deposit are carried at amortized cost.

The Association classifies its investments in debt securities as held to maturity since the Association has the positive intent and ability to hold all debt securities until maturity.

All debt securities are comprised of U. S. Treasury notes or strips and are carried at amortized cost. The maturities of debt securities at amortized cost, fair value and unrealized gain or loss at October 31, 2005 and 2004 are as follows:

	2005	2004
Due in less than one year	\$ 210,136	\$ 195,352
Due in one to five years	554,730	630,904
Due in six to ten years	132,646	219,921
	897,512	1,046,177
Fair value	912,001	1,109,135
Unrealized gain	\$ 14,489	\$ 62,958

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NOTES TO FINANCIAL STATEMENTS

October 31, 2005 and 2004

4. Concentration of Credit Risk

The Association invests a portion of cash in a money market mutual fund that holds primarily commercial paper, certificates of deposit, and U.S. government backed securities.

5. Contracts for Services

Under the terms of a management agreement, certain management and maintenance functions are performed for the Association. The Association reimburses the management company for maintenance, labor and repair materials according to terms set forth in the management agreement. Security, snow removal and pest control are contracted separately with outside firms.

6. Income Taxes

The provision for income taxes is as follows:

	<u>2005</u>	<u>2004</u>
Operating fund	\$ 17	\$ 12
Replacement fund	<u>26,392</u>	<u>27,304</u>
Total	<u>\$26,409</u>	<u>\$27,316</u>

7. Replacement of Common Areas

Based on a study made by the Association's management company and approved by the Board of Directors, the estimated current replacement cost of the common areas being reserved for is \$2,305,439 at October 31, 2005. The remaining useful lives of the common area components being reserved for are estimated to be 1-15 years. The Association is funding for such major repairs and replacements based on an individual component formula, which considers amounts previously accumulated in the replacement fund. Actual expenditures, however, 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, the Association has the right, subject to any necessary member approval, to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

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NOTES TO FINANCIAL STATEMENTS

October 31, 2005 and 2004

8. Interfund Activity

The Association maintains an operating fund and a replacement fund. The replacement fund allocations are collected by the operating fund and paid over to the replacement fund. At October 31, 2005 and 2004, the replacement fund owed the operating fund \$23,899 and \$17,387, respectively.

INDEPENDENT AUDITORS' REPORT ON REQUIRED
SUPPLEMENTARY INFORMATION

To the Board of Directors of
Aspen Grove Condominium Association

The supplementary information on future major repairs and replacements on page 11 is not a required part of the basic financial statements of Aspen Grove Condominium Association 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.

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
December 15, 2005

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ASPEN GROVE CONDOMINIUM ASSOCIATION

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

October 31, 2005

(Unaudited)

(See Independent Auditors' Report on Required Supplementary Information)

The Association's independent consultants completed a study in 2005 to estimate the remaining useful lives and the replacement costs of the major components of common property. The estimates used in the study were based on estimates from consultants, management, contractors, and historical costs. Estimated current replacement costs have been adjusted for a 3% inflation factor 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 amount available for major repairs and replacements at October 31, 2005 was \$2,272,909. The 2006 budgeted assessments to be allocated to the replacement fund are \$16,680.

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

Component Category	Range of Useful Lives	Range of Remaining Lives	Current Replacement Costs
Building exterior	1-12	5-30	\$ 1,838,450
Roads	1-5	3-12	254,361
Plumbing	5-15	5-40	108,000
Electrical	4-15	20-40	70,975
Grounds	2-5	5-10	17,153
Other	1	1	16,500
			<u>\$ 2,305,439</u>