

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2008 and 2007

# ASPEN GROVE CONDOMINIUM ASSOCIATION

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# McCLINTOCK ACCOUNTANCY CORPORATION

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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, 2008 and 2007, 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, 2008 and 2007, 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*

McCLINTOCK ACCOUNTANCY CORPORATION  
Tahoe City, California  
December 19, 2008

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

## BALANCE SHEETS October 31, 2008 and 2007

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| ASSETS  |                     |                     |
| Cash and equivalents  | \$ 26,957           | \$ 82,869           |
| Cash and equivalents, designated for future<br>major repairs and replacements | 779,362             | 591,392             |
| Investments, designated for future major<br>repairs and replacements (Note 3) | 1,435,146           | 1,865,119           |
| Dues receivable   | 12,647              | 2,469               |
| Interest receivable   | 9,091               | 10,516              |
| Prepaid taxes   | 7,194               | -0-                 |
|   | <u>          </u>   | <u>          </u>   |
| Total Assets  | <u>\$ 2,270,397</u> | <u>\$ 2,552,365</u> |
| LIABILITIES AND MEMBERS' EQUITY   |                     |                     |
| Accounts payable  | \$ 15,553           | \$ 22,592           |
| Accrued income taxes  | 0                   | 1,091               |
| Deferred income   | 9,246               | 29,813              |
|   | <u>          </u>   | <u>          </u>   |
| Total Liabilities   | <u>24,799</u>       | <u>53,496</u>       |
| Members' Equity   |                     |                     |
| Operating fund  | 38,889              | 78,043              |
| Replacement fund  | 2,206,709           | 2,420,826           |
|   | <u>          </u>   | <u>          </u>   |
| Total Members' Equity   | <u>2,245,598</u>    | <u>2,498,869</u>    |
|   | <u>          </u>   | <u>          </u>   |
| Total Liabilities and Members' Equity   | <u>\$ 2,270,397</u> | <u>\$ 2,552,365</u> |

The accompanying notes are an integral part of these statements.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit B

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

For the Years Ended October 31, 2008 and 2007

|  | 2008       | 2007       |
|--|------------|------------|
| Revenue                                  |            |            |
| Dues                                     | \$ 471,528 | \$ 471,528 |
| Less: dues allocated to replacement fund | (63,750)   | (17,514)   |
|  | 407,778    | 454,014    |
| Utilities fees                           | 19,584     | 19,584     |
| Bank interest income                     | 765        | 610        |
| Late charges and member interest         | 1,572      | 1,209      |
| Total Revenue                            | 429,699    | 475,417    |
| Expenses                                 |            |            |
| Maintenance and Operations               |            |            |
| Building maintenance                     | 60,068     | 68,811     |
| Grounds maintenance                      | 38,079     | 35,549     |
| Staining                                 | 28,133     | 15,644     |
| Snow removal                             | 121,753    | 58,441     |
| Security                                 | 35,984     | 32,059     |
| Pest control                             | 4,077      | 5,680      |
|  | 288,094    | 216,184    |
| Utilities                                |            |            |
| Electricity                              | 21,675     | 20,554     |
| Water                                    | -0-        | 30,497     |
|  | 21,675     | 51,051     |
| Administrative and General               |            |            |
| Management fee (Note 5)                  | 54,360     | 52,777     |
| Insurance                                | 69,137     | 64,680     |
| Meetings                                 | 7,738      | 5,070      |
| Legal                                    | 8,989      | 5,052      |
| Consulting services                      | 7,904      | 6,560      |
| Audit and tax fees                       | 5,145      | 4,815      |
| Office                                   | 5,811      | 5,432      |
|  | 159,084    | 144,386    |
| Total Expenses                           | 468,853    | 411,621    |
| Revenue Over (Under) Expenses            | (39,154)   | 63,796     |
| Members' Equity, Beginning of Year       | 78,043     | 14,247     |
| Members' Equity, End of Year             | \$ 38,889  | \$ 78,043  |

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit C

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

For the Years Ended October 31, 2008 and 2007

|                                     | 2008                       | 2007                       |
|-------------------------------------|----------------------------|----------------------------|
| Revenue                             |                            |                            |
| Dues                                | \$ 63,750                  | \$ 17,514                  |
| Investment income                   | 97,445                     | 111,208                    |
| Total Revenue                       | <u>161,195</u>             | <u>128,722</u>             |
| Expenses                            |                            |                            |
| Reserve study                       | 1,450                      | -0-                        |
| Asphalt parking lots                | 261,000                    | -0-                        |
| Concrete spalling                   | 6,345                      | -0-                        |
| Water heater replacement            | -0-                        | 7,463                      |
| Light fixture replacement           | 26,192                     | 10,558                     |
| Dumpster enclosures                 | 56,460                     | -0-                        |
| Provision for income taxes (Note 6) | 23,865                     | 29,035                     |
| Total Expenses                      | <u>375,312</u>             | <u>47,056</u>              |
| Revenue Over (Under) Expenses       | (214,117)                  | 81,666                     |
| Members' Equity, Beginning of Year  | <u>2,420,826</u>           | <u>2,339,160</u>           |
| Members' Equity, End of Year        | <u><u>\$ 2,206,709</u></u> | <u><u>\$ 2,420,826</u></u> |

The accompanying notes are an integral part of these statements.



# ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit D

## STATEMENTS OF CASH FLOWS

For the Years Ended October 31, 2008 and 2007

|  | <u>2008</u>                | <u>2007</u>              |
|--|----------------------------|--------------------------|
| Cash Flows from Operating Activities:  |                            |                          |
| Cash received from owners and others   | \$ 461,939                 | \$ 511,312               |
| Cash paid to suppliers and contractors   | (827,339)                  | (446,983)                |
| Interest received  | 74,608                     | 81,401                   |
| Income taxes paid  | (32,150)                   | (27,010)                 |
| Net Cash Provided (Used) by Operating Activities   | <u>(322,942)</u>           | <u>118,720</u>           |
| Cash Flows from Investing Activities:  |                            |                          |
| Maturity of designated investments   | <u>455,000</u>             | <u>320,000</u>           |
| Net Cash Provided by Investing Activities  | <u>455,000</u>             | <u>320,000</u>           |
| Net Increase in Cash   | 132,058                    | 438,720                  |
| Cash and equivalents, Beginning of the Year  | <u>674,261</u>             | <u>235,541</u>           |
| Cash and equivalents, End of the Year  | <u><u>\$ 806,319</u></u>   | <u><u>\$ 674,261</u></u> |
| Analysis of Cash:  |                            |                          |
| Cash and equivalents, undesignated   | \$ 26,957                  | \$ 82,869                |
| Cash and equivalents, designated   | <u>779,362</u>             | <u>591,392</u>           |
|  | <u><u>\$ 806,319</u></u>   | <u><u>\$ 674,261</u></u> |
| Reconciliation of Revenue Over (Under) Expenses to Net Cash<br>Provided by Operating Activities: |                            |                          |
| Revenue Over (Under) Expenses  | <u>\$ (39,154)</u>         | <u>\$ 63,796</u>         |
| Adjustments:   |                            |                          |
| Replacement fund assessments   | 63,750                     | 17,514                   |
| Replacement fund investment income   | 97,445                     | 111,208                  |
| Replacement fund expenses  | (375,312)                  | (47,056)                 |
| Change in assets other than cash and investments   | (15,947)                   | 5,909                    |
| Change in liabilities  | (28,697)                   | 1,133                    |
| Amortization of discounts on investments   | <u>(25,027)</u>            | <u>(33,784)</u>          |
| Total Adjustments  | <u>(283,788)</u>           | <u>54,924</u>            |
| Net Cash Provided (Used) by Operating Activities   | <u><u>\$ (322,942)</u></u> | <u><u>\$ 118,720</u></u> |

The accompanying notes are an integral part of these statements.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

October 31, 2008 and 2007

### 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, 2008 and 2007

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 and equivalents 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. There were no gains or losses realized on the sale or maturity of debt securities during the years ended October 31, 2008 and 2007.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

October 31, 2008 and 2007

The maturities of debt securities at amortized cost, fair value and unrealized gain or loss at October 31, 2008 and 2007 are as follows:

|                           | 2008       | 2007       |
|---------------------------|------------|------------|
| Due in less than one year | \$ 120,778 | \$ 195,243 |
| Due in one to five years  | 272,368    | 432,876    |
| Due in six to ten years   | 0          | 0          |
|                           | 393,146    | 628,119    |
| Fair value                | 414,380    | 638,839    |
| Unrealized gain           | \$ 21,234  | \$ 10,720  |

### 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:

|         | 2008      | 2007      |
|---------|-----------|-----------|
| Federal | \$ 17,491 | \$ 22,197 |
| State   | 6,374     | 6,838     |
| Total   | \$23,865  | \$29,035  |

### 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.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

October 31, 2008 and 2007

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.

### 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, 2008 and 2007, the replacement fund owed the operating fund \$16,889 and \$45,110, respectively.