

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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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 major repairs and replacements	779,362	591,392
Investments, designated for future major 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

	<u>2008</u>	<u>2007</u>
Revenue		
Dues	\$ 471,528	\$ 471,528
Less: dues allocated to replacement fund	<u>(63,750)</u>	<u>(17,514)</u>
	407,778	454,014
Utilities fees	19,584	19,584
Bank interest income	765	610
Late charges and member interest	<u>1,572</u>	<u>1,209</u>
Total Revenue	<u>429,699</u>	<u>475,417</u>
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	<u>4,077</u>	<u>5,680</u>
	<u>288,094</u>	<u>216,184</u>
Utilities		
Electricity	21,675	20,554
Water	<u>-0-</u>	<u>30,497</u>
	<u>21,675</u>	<u>51,051</u>
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	<u>5,811</u>	<u>5,432</u>
	<u>159,084</u>	<u>144,386</u>
Total Expenses	<u>468,853</u>	<u>411,621</u>
Revenue Over (Under) Expenses	(39,154)	63,796
Members' Equity, Beginning of Year	<u>78,043</u>	<u>14,247</u>
Members' Equity, End of Year	<u>\$ 38,889</u>	<u>\$ 78,043</u>

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

	<u>2008</u>	<u>2007</u>
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>\$ 2,206,709</u>	<u>\$ 2,420,826</u>

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>\$ 806,319</u>	<u>\$ 674,261</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>\$ 806,319</u>	<u>\$ 674,261</u>
Reconciliation of Revenue Over (Under) Expenses to Net Cash 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>\$ (322,942)</u>	<u>\$ 118,720</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

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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.

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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.

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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.