

ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2009 and 2008

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, 2009 and 2008, 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, 2009 and 2008, 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 23, 2009

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

BALANCE SHEETS
October 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and equivalents	\$ 63,475	\$ 26,957
Cash and equivalents, designated for future major repairs and replacements	885,407	779,362
Investments, designated for future major repairs and replacements (Note 3)	667,000	1,435,146
Dues receivable	25,179	12,647
Interest receivable	3,671	9,091
Prepaid taxes	<u>7,583</u>	<u>7,194</u>
Total Assets	<u>\$ 1,652,315</u>	<u>\$ 2,270,397</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 150,753	\$ 15,553
Deferred income	<u>17,190</u>	<u>9,246</u>
Total Liabilities	<u>167,943</u>	<u>24,799</u>
Members' Equity		
Operating fund	79,908	38,889
Replacement fund	<u>1,404,464</u>	<u>2,206,709</u>
Total Members' Equity	<u>1,484,372</u>	<u>2,245,598</u>
Total Liabilities and Members' Equity	<u>\$ 1,652,315</u>	<u>\$ 2,270,397</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue		
Dues	\$ 514,320	\$ 471,528
Less: dues allocated to replacement fund	<u>(49,425)</u>	<u>(63,750)</u>
	464,895	407,778
Utilities fees	19,584	19,584
Bank interest income	-0-	765
Late charges and member interest	<u>1,151</u>	<u>1,572</u>
Total Revenue	<u>485,630</u>	<u>429,699</u>
Expenses		
Maintenance and Operations		
Building maintenance	93,222	60,068
Grounds maintenance	28,375	38,079
Staining	18,621	28,133
Snow removal	79,775	121,753
Security	23,874	35,984
Pest control	<u>5,442</u>	<u>4,077</u>
	<u>249,309</u>	<u>288,094</u>
Utilities		
Electricity	<u>16,434</u>	<u>21,675</u>
	<u>16,434</u>	<u>21,675</u>
Administrative and General		
Management fee (Note 5)	54,360	54,360
Insurance	68,280	69,137
Meetings	8,708	7,738
Legal	29,455	8,989
Consulting services	4,689	7,904
Audit and tax fees	6,279	5,145
Office	<u>7,097</u>	<u>5,811</u>
	<u>178,868</u>	<u>159,084</u>
Total Expenses	<u>444,611</u>	<u>468,853</u>
Revenue Over (Under) Expenses	41,019	(39,154)
Members' Equity, Beginning of Year	<u>38,889</u>	<u>78,043</u>
Members' Equity, End of Year	<u>\$ 79,908</u>	<u>\$ 38,889</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenue		
Dues	\$ 49,425	\$ 63,750
Investment income	72,017	97,445
Miscellaneous income	190,910	-0-
Total Revenue	<u>312,352</u>	<u>161,195</u>
Expenses		
Reserve study	1,200	1,450
Asphalt parking lots	22,879	261,000
Concrete spalling	-0-	6,345
Window replacement	395,281	-0-
Door replacement	117,456	-0-
Deck rebuild	67,509	-0-
Picket & railing replacement	270,595	-0-
Light fixture replacement	194,456	26,192
Dumpster enclosures	26,588	56,460
Miscellaneous expenses	2,012	-0-
Provision for income taxes (Note 6)	16,621	23,865
Total Expenses	<u>1,114,597</u>	<u>375,312</u>
Revenue Under Expenses	(802,245)	(214,117)
Members' Equity, Beginning of Year	<u>2,206,709</u>	<u>2,420,826</u>
Members' Equity, End of Year	<u><u>\$ 1,404,464</u></u>	<u><u>\$ 2,206,709</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, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Cash received from owners and others	\$ 721,377	\$ 461,939
Cash paid to suppliers and contractors	(1,407,387)	(827,339)
Interest received	77,049	74,608
Income taxes paid	(17,010)	(32,150)
Net Cash Used by Operating Activities	(625,971)	(322,942)
Cash Flows from Investing Activities:		
Purchase of designated investments	(380,000)	-0-
Maturity of designated investments	1,148,534	455,000
Net Cash Provided by Investing Activities	768,534	455,000
Net Increase in Cash	142,563	132,058
Cash and equivalents, Beginning of the Year	806,319	674,261
Cash and equivalents, End of the Year	\$ 948,882	\$ 806,319
Analysis of Cash:		
Cash and equivalents, undesignated	\$ 63,475	\$ 26,957
Cash and equivalents, designated	885,407	779,362
	\$ 948,882	\$ 806,319
Reconciliation of Revenue Over (Under) Expenses to Net Cash Provided by Operating Activities:		
Revenue Over (Under) Expenses	\$ 41,019	\$ (39,154)
Adjustments:		
Replacement fund assessments	49,425	63,750
Replacement fund investment income	72,017	97,445
Replacement fund miscellaneous income	190,910	-0-
Replacement fund expenses	(1,114,597)	(375,312)
Change in assets other than cash and investments	(7,501)	(15,947)
Change in liabilities	143,144	(28,697)
Amortization of discounts on investments	(388)	(25,027)
Total Adjustments	(666,990)	(283,788)
Net Cash Used by Operating Activities	\$ (625,971)	\$ (322,942)

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2009 and 2008

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

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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 consisted only of certificates of deposit at October 31, 2009, and consisted of both certificates of deposit and debt securities at October 31, 2008.

All debt securities were comprised of U. S. Treasury notes or strips and were carried at amortized cost. The Association sold its entire portfolio of debt securities during the year ended October 31, 2009 resulting in a realized gain of approximately \$19,500.

The maturities of debt securities at amortized cost, fair value and unrealized gain or loss at October 31, 2009 and 2008 are as follows:

	2009	2008
Due in less than one year	\$ 0	\$ 120,778
Due in one to five years	0	272,368
Due in six to ten years	0	0
	0	393,146
Fair value	0	414,380
	0	414,380
Unrealized gain	\$ 0	\$ 21,234
	0	21,234

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2009 and 2008

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>2009</u>	<u>2008</u>
Federal	\$ 10,811	\$ 17,491
State	<u>5,810</u>	<u>6,374</u>
Total	<u>\$16,621</u>	<u>\$23,865</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 \$5,361,420 at October 31, 2009. 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.

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, 2009 and 2008, the replacement fund owed the operating fund \$131,923

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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and \$16,889, respectively.

9. Commitments

During the year ended October 31, 2009, the Association entered into a contract for hydrogeologic investigation at a cost of approximately \$66,000. No work had been performed under this contract prior to October 31, 2009.

During the year ended October 31, 2009, the Association also entered into multi year contracts for projects which included front door and window & trim replacement. The commitments related to these projects total approximately \$300,000 for fiscal year 2010 and 2011.

10. Subsequent Events

The Association has performed an evaluation of subsequent events through December 23, 2009, which is the date the financial statements were available for issuance.

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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

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
December 23, 2009

ASPEN GROVE CONDOMINIUM ASSOCIATION

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

October 31, 2009
(Unaudited)

(See Independent Auditors' Report on Required Supplementary Information)

The Association's independent consultants completed a study in fiscal year 2009 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 3.2% 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, 2009 was \$1,404,075. The 2009/10 budgeted assessments to be allocated to the replacement fund are \$120,000.

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	3-50	0-34	\$ 4,658,476
Roads	3-18	3-18	259,629
Plumbing	8-40	2-12	108,000
Electrical	20-40	4-25	280,565
Grounds	5-15	2-15	47,900
Consulting	3-5	1-3	6,850
			<u>\$ 5,361,420</u>