

ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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
January 5, 2011

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

BALANCE SHEETS October 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 127,319	\$ 63,475
Cash and cash equivalents, designated for future major repairs and replacements	187,205	885,407
Investments, designated for future major repairs and replacements (Note 4)	287,000	667,000
Dues receivable, net allowance for doubtful of \$3,428 in 2010 and \$-0- in 2009	53,055	25,179
Interest receivable	996	3,671
Prepaid taxes	<u>11,491</u>	<u>7,583</u>
Total Assets	<u>\$ 667,066</u>	<u>\$ 1,652,315</u>
LIABILITIES AND MEMBERS' EQUITY		
Accounts payable	\$ 53,388	\$ 150,753
Deferred income	<u>14,014</u>	<u>17,190</u>
Total Liabilities	<u>67,402</u>	<u>167,943</u>
Members' Equity		
Operating fund	(129,581)	79,908
Replacement fund	<u>729,245</u>	<u>1,404,464</u>
Total Members' Equity	<u>599,664</u>	<u>1,484,372</u>
Total Liabilities and Members' Equity	<u>\$ 667,066</u>	<u>\$ 1,652,315</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue		
Dues	\$ 592,051	\$ 514,320
Less: dues allocated to replacement fund	<u>(120,000)</u>	<u>(49,425)</u>
	472,051	464,895
Utilities fees	16,710	19,584
Bank interest income	25	-0-
Late charges and member interest	<u>1,819</u>	<u>1,151</u>
Total Revenue	<u>490,605</u>	<u>485,630</u>
Expenses		
Maintenance and Operations		
Building maintenance	64,129	93,222
Pathway addition	21,597	-0-
Trim & awning painting	165,950	-0-
Grounds maintenance	39,953	28,375
Retention pond	38,894	-0-
Staining	34,700	18,621
Snow removal	105,439	79,775
Security	25,404	23,874
Pest control	<u>4,998</u>	<u>5,442</u>
	<u>501,064</u>	<u>249,309</u>
Utilities		
Electricity	<u>17,135</u>	<u>16,434</u>
	<u>17,135</u>	<u>16,434</u>
Administrative and General		
Management fee (Note 5)	54,360	54,360
Insurance	67,320	68,280
Meetings	3,018	8,708
Legal	43,881	29,455
Consulting services	-0-	4,689
Audit and tax fees	5,785	6,279
Bad debt expense	3,428	-0-
Office	<u>4,103</u>	<u>7,097</u>
	<u>181,895</u>	<u>178,868</u>
Total Expenses	<u>700,094</u>	<u>444,611</u>
Revenue Over (Under) Expenses	(209,489)	41,019
Members' Equity, Beginning of Year	<u>79,908</u>	<u>38,889</u>
Members' Equity, End of Year	<u><u>\$ (129,581)</u></u>	<u><u>\$ 79,908</u></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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue		
Dues	\$ 120,000	\$ 49,425
Door replacement	11,050	-0-
Window replacement	376,345	-0-
Investment income	28,422	72,017
Miscellaneous income	-0-	190,910
Total Revenue	<u>535,817</u>	<u>312,352</u>
Expenses		
Reserve study	-0-	1,200
Asphalt parking lots	400	22,879
Window replacement	898,117	395,281
Door replacement	177,694	117,456
Deck rebuild	25,213	67,509
Picket & railing replacement	-0-	270,595
Light fixture replacement	28,003	194,456
Concrete spalling repairs	1,511	-0-
Tower building	4,553	-0-
Dumpster enclosures	-0-	26,588
Window awnings	49,407	-0-
Entry stairway	16,567	-0-
Miscellaneous expenses	4,069	2,012
Provision for income taxes (Note 6)	5,502	16,621
Total Expenses	<u>1,211,036</u>	<u>1,114,597</u>
Revenue Under Expenses	(675,219)	(802,245)
Members' Equity, Beginning of Year	<u>1,404,464</u>	<u>2,206,709</u>
Members' Equity, End of Year	<u><u>\$ 729,245</u></u>	<u><u>\$ 1,404,464</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Net Revenue Over (Under) Expenses	<u>\$ (209,489)</u>	<u>\$ 41,019</u>
Adjustments:		
Replacement fund assessments	120,000	49,425
Replacement fund investment income	28,422	72,017
Replacement fund miscellaneous income	-0-	190,910
Replacement fund expenses	(1,211,036)	(1,114,597)
Replacement fund window replacement income	376,345	-0-
Replacement fund front door replacement income	11,050	-0-
Bad debt expense	3,428	-0-
Change in assessments receivable	(31,304)	(12,532)
Change in interest receivable	2,675	5,420
Change in prepaid taxes	(3,908)	(389)
Change in accounts payable	(97,365)	135,200
Change in dues paid in advance	(3,176)	7,944
Amortization of discounts on investments	-0-	(388)
Total Adjustments	<u>(804,869)</u>	<u>(666,990)</u>
Net Cash Used by Operating Activities	<u>(1,014,358)</u>	<u>(625,971)</u>
Cash Flows from Investing Activities:		
Purchase of designated investments	-0-	(380,000)
Maturities of designated investments	<u>380,000</u>	<u>1,148,534</u>
Net Cash Provided by Investing Activities	380,000	768,534
Net Increase (Decrease) in Cash and Cash Equivalents	(634,358)	142,563
Cash and Cash Equivalents, Beginning of the Year	<u>948,882</u>	<u>806,319</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 314,524</u></u>	<u><u>\$ 948,882</u></u>
Analysis of Cash:		
Cash and Cash equivalents, undesignated	\$ 127,319	\$ 63,475
Cash and Cash equivalents, designated	<u>187,205</u>	<u>885,407</u>
	<u><u>\$ 314,524</u></u>	<u><u>\$ 948,882</u></u>
Supplementary information		
Income taxes paid	<u><u>\$ 9,400</u></u>	<u><u>\$ 17,000</u></u>

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2010 and 2009

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, 2010 and 2009

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 carrying amounts of financial instruments, including cash, certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the short term maturities of these instruments.
- J. 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.
- K. Certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010. The reclassifications had no impact on the financial position or results of operations for 2009.

3. Concentration of Credit Risk

The Association maintains demand accounts at various banks. These accounts did not exceed the federally insured limit at October 31, 2010 and 2009.

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. Money market mutual fund holdings are not federally insured.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2010 and 2009

4. Investments

Statement of Financial Accounting Standard (SFAS) 157, *Fair Value Measurements*, was effective for the Association for the fiscal year ending October 31, 2010. Investments are comprised principally of funds held in money market funds and certificates of deposits. The carrying amount of money market funds equals fair value. All securities held at October 31, 2010 and 2009 are considered to be Level 1 inputs. Level 1 inputs include quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date. The Association classifies its investments in certificates of deposit as held to maturity. The amortized cost, gross unrealized gains and losses and aggregate fair value at October 31, 2010 and 2009 are as follows:

	2010			
	Amortized Cost	Aggregate Fair Value	Gross Unrecognized Holding Gains	Net Carrying Amount
<u>Held to Maturity</u>				
Certificate of Deposit	\$ 287,000	\$ 299,217	\$ 12,217	\$ 287,000
				<u>\$ 287,000</u>
	2009			
	Amortized Cost	Aggregate Fair Value	Gross Unrecognized Holding Gains	Net Carrying Amount
<u>Held to Maturity</u>				
Certificate of Deposit	\$ 667,000	\$ 686,642	\$ 19,642	\$ 686,642
				<u>\$ 686,642</u>

Investments consisted only of certificates of deposit at October 31, 2010 and 2009.

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.

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.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2010 and 2009

The provision for income taxes is as follows:

	<u>2010</u>	<u>2009</u>
Federal	\$ 3,010	\$10,811
State	<u>2,492</u>	<u>5,810</u>
Total	<u>\$ 5,502</u>	<u>\$ 16,621</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, 2010. 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, 2010, the operating fund owed the replacement fund \$254,044. At October 31, 2009, the replacement fund owed the operating fund \$131,923.

9. Subsequent Events

The Association has performed an evaluation of subsequent events through January 5, 2011, which is the date the financial statements were available for issuance.

McCLINTOCK ACCOUNTANCY CORPORATION

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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

January 5, 2011

ASPEN GROVE CONDOMINIUM ASSOCIATION

Schedule 1

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

October 31, 2010

(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, 2010 was \$729,245. The 2010/11 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>