

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2011 and 2010

McCLINTOCK ACCOUNTANCY CORPORATION

---

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## TABLE OF CONTENTS

		Page
	INDEPENDENT AUDITORS' REPORT	1
Exhibit A	BALANCE SHEETS	2
Exhibit B	STATEMENTS OF OPERATING REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY	3
Exhibit C	STATEMENTS OF REPLACEMENT REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY	4
Exhibit D	STATEMENTS OF CASH FLOWS	5
	NOTES TO FINANCIAL STATEMENTS	6-10
Schedule 1	REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS	11

# McCLINTOCK ACCOUNTANCY CORPORATION

---

ROBERT J. McCLINTOCK, CPA  
MICHAEL R. GRIESMER, CPA

SHARON FERREIRA, CPA  
BRENT GOUVEIA, CPA  
ERIC ALLEN, CPA

305 WEST LAKE BOULEVARD  
P. O. BOX 6179  
TAHOE CITY, CA 96145  
TELEPHONE: 530-583-6994  
FAX: 530-583-5405

17400 NORTHWOODS BLVD  
BUILDING B, SUITE 105  
P. O. BOX 2468  
TRUCKEE, CA 96160  
TELEPHONE: 530-587-9221  
FAX: 530-587-4946

## 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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacements on page 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*McClintock Accountancy Corporation*  
McCLINTOCK ACCOUNTANCY CORPORATION

Tahoe City, California  
January 11, 2012

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

## BALANCE SHEETS October 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 478,571	\$ 127,319
Cash and cash equivalents, designated for future major repairs and replacements	79,455	187,205
Investments, designated for future major repairs and replacements (Note 4)	-0-	287,000
Dues receivable, net allowance for doubtful of \$7,175 in 2011 and \$3,428 in 2010	3,446	53,055
Special assessment receivable, net allowance for doubtful of \$3,000 in 2011 and \$-0- in 2010	45,791	-0-
Interest receivable	-0-	996
Prepaid taxes	<u>2,286</u>	<u>11,491</u>
Total Assets	<u><u>\$ 609,549</u></u>	<u><u>\$ 667,066</u></u>

## LIABILITIES AND MEMBERS' EQUITY

Accounts payable	\$ 684,967	\$ 53,388
Deferred income	<u>24,357</u>	<u>14,014</u>
Total Liabilities	<u>709,324</u>	<u>67,402</u>
Members' Equity		
Operating fund	(716,762)	(129,581)
Replacement fund	<u>616,987</u>	<u>729,245</u>
Total Members' Equity	<u>(99,775)</u>	<u>599,664</u>
Total Liabilities and Members' Equity	<u><u>\$ 609,549</u></u>	<u><u>\$ 667,066</u></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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue		
Dues	\$ 592,572	\$ 592,051
Special assessment (Note 8)	540,000	-0-
Less: dues allocated to replacement fund	<u>-0-</u>	<u>(120,000)</u>
	1,132,572	472,051
Utilities fees	14,400	16,710
Bank interest income	5	25
Late charges and member interest	<u>2,411</u>	<u>1,819</u>
Total Revenue	<u>1,149,388</u>	<u>490,605</u>
Expenses		
Maintenance and Operations		
Building maintenance	72,187	64,129
Pathway addition	-0-	21,597
Trim and awning painting	-0-	165,950
Grounds maintenance	34,664	39,953
Retention pond	113,559	38,894
Staining	17,400	34,700
Snow removal	148,249	105,439
Security	25,404	25,404
Pest control	<u>7,136</u>	<u>4,998</u>
	<u>418,599</u>	<u>501,064</u>
Utilities		
Electricity	<u>18,402</u>	<u>17,135</u>
	<u>18,402</u>	<u>17,135</u>
Administrative and General		
Management fee (Note 5)	54,418	54,360
Insurance	67,320	67,320
Meetings	4,321	3,018
Legal (Note 9)	1,153,610	43,881
Audit and tax fees	5,750	5,785
Bad debt expense	9,892	3,428
Office	<u>4,257</u>	<u>4,103</u>
	<u>1,299,568</u>	<u>181,895</u>
Total Expenses	<u>1,736,569</u>	<u>700,094</u>
Revenue Under Expenses	(587,181)	(209,489)
Members' Equity, Beginning of Year	<u>(129,581)</u>	<u>79,908</u>
Members' Equity, End of Year	<u>\$ (716,762)</u>	<u>\$ (129,581)</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue		
Dues	\$ -0-	\$ 120,000
Door replacement	-0-	11,050
Window replacement	400	376,345
Investment income	16,623	28,422
Miscellaneous income	<u>1,511</u>	<u>-0-</u>
Total Revenue	<u>18,534</u>	<u>535,817</u>
Expenses		
Asphalt parking lots	-0-	400
Window replacement	1,100	898,117
Door replacement	-0-	177,694
Deck rebuild and light fixtures	34,821	25,213
Rotten posts and building foundation	8,261	-0-
Light fixture replacement	-0-	28,003
Concrete spalling repairs	-0-	1,511
Tower building	50,672	4,553
Gas and electric meter doors	28,375	-0-
Window awnings	-0-	49,407
Entry stairway	4,553	16,567
Miscellaneous expenses	-0-	4,069
Provision for income taxes (Note 6)	<u>3,010</u>	<u>5,502</u>
Total Expenses	<u>130,792</u>	<u>1,211,036</u>
Revenue Under Expenses	(112,258)	(675,219)
Members' Equity, Beginning of Year	<u>729,245</u>	<u>1,404,464</u>
Members' Equity, End of Year	<u><u>\$ 616,987</u></u>	<u><u>\$ 729,245</u></u>

The accompanying notes are an integral part of these statements.

-4-

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit D

## STATEMENTS OF CASH FLOWS For the Years Ended October 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Net Revenue Under Expenses	<u>\$ (587,181)</u>	<u>\$ (209,489)</u>
Adjustments:		
Replacement fund assessments	-0-	120,000
Replacement fund investment income	16,623	28,422
Replacement fund miscellaneous income	1,511	-0-
Replacement fund expenses	(130,792)	(1,211,036)
Replacement fund window replacement income	400	376,345
Replacement fund front door replacement income	-0-	11,050
Bad debt expense	9,892	3,428
Change in assessments receivable	(51,865)	(31,304)
Change in special assessment receivable	45,791	-0-
Change in interest receivable	996	2,675
Change in prepaid taxes	9,205	(3,908)
Change in accounts payable	631,579	(97,365)
Change in dues paid in advance	<u>10,343</u>	<u>(3,176)</u>
Total Adjustments	<u>543,683</u>	<u>(804,869)</u>
Net Cash Used by Operating Activities	<u>(43,498)</u>	<u>(1,014,358)</u>
Cash Flows from Investing Activities:		
Maturities of designated investments	<u>287,000</u>	<u>380,000</u>
Net Cash Provided by Investing Activities	<u>287,000</u>	<u>380,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	243,502	(634,358)
Cash and Cash Equivalents, Beginning of the Year	<u>314,524</u>	<u>948,882</u>
Cash and Cash Equivalents, End of the Year	<u><u>\$ 558,026</u></u>	<u><u>\$ 314,524</u></u>
Analysis of Cash:		
Cash and Cash equivalents, undesignated	\$ 478,571	\$ 63,475
Cash and Cash equivalents, designated	<u>79,455</u>	<u>885,407</u>
	<u><u>\$ 558,026</u></u>	<u><u>\$ 948,882</u></u>
Supplementary information		
Income taxes paid	<u><u>\$ -0-</u></u>	<u><u>\$ 9,400</u></u>

The accompanying notes are an integral part of these statements.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

October 31, 2011 and 2010

### 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, 2011 and 2010

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, 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 2010 financial statements to conform to the classifications used in 2011. The reclassifications had no impact on the financial position or results of operations for 2010.

### 3. Concentration of Credit Risk

The Association maintains demand accounts at various banks. At October 31, 2011 and 2010 these accounts exceeded the federally insured limits by \$294,669 and \$-0-, respectively. Certain balances above in excess of the federally insured limits are covered by private insurance offered through the banking institution.

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, 2011 and 2010

### 4. Investments

Statement of Financial Accounting Standard (SFAS) ASC 320 was effective for the Association for the fiscal year ending October 31, 2011. 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, 2011 and 2010 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, 2011 and 2010 are as follows:

2011				
	Amortized Cost	Aggregate Fair Value	Gross Unrecognized Holding Gains	Net Carrying Amount
<u>Held to Maturity</u>				
Certificate of Deposit	\$ -0-	\$ -0-	\$ -0-	\$ -0-
				<u>\$ -0-</u>
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>

Investments consisted only of certificates of deposit at October 31, 2011 and 2010. The Association sold its entire portfolio of certificates of deposits during the year ended October 31, 2011 resulting in a realized gain of approximately \$6,250.

### 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, 2011 and 2010

### 6. Income Taxes

The provision for income taxes is as follows:

	<u>2011</u>	<u>2010</u>
Federal	\$ 688	\$ 3,010
State	<u>2,322</u>	<u>2,492</u>
Total	<u>\$ 3,010</u>	<u>\$ 5,502</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 \$5,413,420. 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. Special Assessment

During the year ended October 31, 2011, the Association approved a special assessment on all 180 units totaling \$540,000 for the purpose of legal costs related to the retention pond litigation. The full amount of the special assessment shall be due and payable by October 1, 2011.

### 9. Legal Action

The Association has filed a lawsuit against the land owner of the retention pond for potential property damage from underground water believed to be migrating onto its property. Currently, no estimate is available for actual amounts, if any, to be received.

During the years ended October 31, 2011 and 2010, the Association incurred expenses of approximately \$1,267,000 and \$82,800, respectively, related to this claim.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

October 31, 2011 and 2010

8. Interfund Activity

During the year ended October 31, 2011, the Board of Directors approved loans from the replacement fund to the operating fund to cover shortfalls in the operating account from heavy winter expenses and litigation. These loans total approximately \$378,000 and all loans are to be repaid within one year.

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, 2011 and 2010, the operating fund owed the replacement fund \$537,532 and \$254,044, which includes the interfund loan balances of \$378,000 and \$-0-, respectively.

9. Subsequent Events

The Association has performed an evaluation of subsequent events through January 11, 2012, which is the date the financial statements were available for issuance.

# ASPEN GROVE CONDOMINIUM ASSOCIATION

Schedule 1

## REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

October 31, 2011  
(Unaudited)

(See Independent Auditors' Report)

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 of cash available for major repairs and replacements at October 31, 2011 was \$79,455. The 2011/12 budgeted assessments to be allocated to the replacement fund are \$38,000.

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	271,629
Plumbing	8-40	2-12	108,000
Electrical	20-40	4-25	280,565
Grounds	5-15	2-15	47,900
Consulting	1-5	1-3	6,850
			<u>\$ 5,373,420</u>