

ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar-at-Tahoe, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2012 and 2011

McCLINTOCK ACCOUNTANCY CORPORATION

ASPEN GROVE CONDOMINIUM ASSOCIATION

TABLE OF CONTENTS

		Page
	INDEPENDENT AUDITORS' REPORT	1
Exhibit A	BALANCE SHEETS	2
Exhibit B	STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY	3
Exhibit C	STATEMENTS OF CASH FLOWS	4
	NOTES TO FINANCIAL STATEMENTS	5-9
Schedule 1	REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS	10

McCLINTOCK ACCOUNTANCY CORPORATION

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

SHARON FERREIRA, CPA
BRENT GOUVEIA, CPA
ANTHONY DEMELO, 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
Aspen Grove Condominium Association

We have audited the accompanying balance sheet of Aspen Grove Condominium Association as of October 31, 2012, and the related statements of 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit 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 audit provides 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, 2012, 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.

Information for the year ended October 31, 2011 is presented for comparison purposes only and was extracted from the financial statements presented for that year on which we expressed an unqualified opinion in our report dated January 11, 2012.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
January 11, 2013

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

BALANCE SHEETS

October 31, 2012 (with comparative totals for 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents	\$ 108,760	\$ 54,279	\$ 163,039	\$ 558,026
Assessments receivable, net of allowance for doubtful accounts of \$19,899 in 2012 and \$7,174 in 2011	2,822	-0-	2,822	3,446
Special assessments receivable (Note 8), net of allowance for doubtful accounts of \$3,000 for 2012 and \$3,000 for 2011	214,832	-0-	214,832	45,791
Prepaid taxes	2,286	-0-	2,286	2,286
Due to/from (Note 10)	(525,624)	525,624	-0-	-0-
Total Assets	<u>\$ (196,924)</u>	<u>\$ 579,903</u>	<u>\$ 382,979</u>	<u>\$ 609,549</u>
LIABILITIES AND MEMBERS' EQUITY				
Accounts payable	\$ 442,407	\$ -0-	\$ 442,407	\$ 684,967
Line of credit (Note 9)	300,000	-0-	300,000	-0-
Notes payable (Note 9)	207,084	-0-	207,084	-0-
Prepaid dues	24,914	-0-	24,914	24,357
Total Liabilities	974,405	-0-	974,405	709,324
Total Members' Equity	<u>(1,171,329)</u>	<u>579,903</u>	<u>(591,426)</u>	<u>(99,775)</u>
Total Liabilities and Members' Equity	<u>\$ (196,924)</u>	<u>\$ 579,903</u>	<u>\$ 382,979</u>	<u>\$ 609,549</u>

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit B

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY
For the Year Ended October 31, 2012 (with comparative totals for 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Dues	\$ 618,816	\$ 38,004	\$ 656,820	\$ 592,572
Special assessment (Note 7)	748,180	-0-	748,180	540,000
Late charges	4,714	-0-	4,714	2,411
Investment income	-0-	5	5	16,628
Utility fees	14,532	-0-	14,532	14,400
Miscellaneous income	-0-	-0-	-0-	1,911
Total Revenue	<u>1,386,242</u>	<u>38,009</u>	<u>1,424,251</u>	<u>1,167,922</u>
EXPENSES				
Administrative and General:				
Management fee	54,160	-0-	54,160	54,418
Insurance	67,044	-0-	67,044	67,320
Meetings	5,633	-0-	5,633	4,321
Legal and accounting	1,393,768	-0-	1,393,768	1,159,360
Bad debt expense	12,724	-0-	12,724	9,892
Office	5,362	-0-	5,362	4,257
Income tax provision	-0-	-0-	-0-	3,010
Interest expense	6,360	-0-	6,360	-0-
Miscellaneous	19,474	-0-	19,474	-0-
	<u>1,564,525</u>	<u>-0-</u>	<u>1,564,525</u>	<u>1,302,577</u>
Utilities:				
Electricity and natural gas	15,992	-0-	15,992	18,402
	<u>15,992</u>	<u>-0-</u>	<u>15,992</u>	<u>18,402</u>
Maintenance and operations:				
Building maintenance	79,462	-0-	79,462	72,187
Grounds maintenance	16,892	-0-	16,892	34,664
Retention pond	77,786	-0-	77,786	113,559
Staining and siding	7,434	5,222	12,656	17,400
Snow removal	48,062	-0-	48,062	148,249
Security	25,404	-0-	25,404	25,404
Pest control	5,252	-0-	5,252	7,136
Concrete pier	-0-	14,804	14,804	-0-
Asphalt pathway	-0-	10,107	10,107	-0-
Roof replacement	-0-	13,700	13,700	-0-
Tower building - refurbishment	-0-	1,430	1,430	50,672
Water heater replacement	-0-	15,300	15,300	-0-
Flashing kickers	-0-	14,530	14,530	-0-
Concrete spalling repairs	-0-	-0-	-0-	1,511
Deck rebuild and fixtures	-0-	-0-	-0-	34,821
Gas and electric meter shed	-0-	-0-	-0-	28,375
Rotten post replacement	-0-	-0-	-0-	6,750
Entry stairway	-0-	-0-	-0-	4,553
Window replacement	-0-	-0-	-0-	1,100
	<u>260,292</u>	<u>75,093</u>	<u>335,385</u>	<u>546,382</u>
Total Expenses	<u>1,840,809</u>	<u>75,093</u>	<u>1,915,902</u>	<u>1,867,361</u>
Revenue Under Expenses	(454,567)	(37,084)	(491,651)	(699,439)
Member's Equity, Beginning of Year	<u>(716,762)</u>	<u>616,987</u>	<u>(99,775)</u>	<u>599,664</u>
Member's Equity, End of Year	<u>\$ (1,171,329)</u>	<u>\$ 579,903</u>	<u>\$ (591,426)</u>	<u>\$ (99,775)</u>

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit C

STATEMENTS OF CASH FLOWS

For the Year Ended October 31, 2012 (with comparative totals for 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Revenue Under Expenses	\$ (454,567)	\$ (37,084)	\$ (491,651)	\$ (699,439)
Adjustments to Reconcile Revenue Under Expenses to Net Cash Used by Operating Activities:				
Bad debt expense	12,724	-0-	12,724	9,892
Change in accounts receivable	36,691	-0-	36,691	(51,865)
Change in accounts receivable-special assessment	(217,832)	-0-	(217,832)	45,791
Change in interest receivable	-0-	-0-	-0-	996
Change in prepaid taxes	-0-	-0-	0	9,205
Change in accounts payable	(242,560)	-0-	(242,560)	631,579
Change in assessments paid in advance	557	-0-	557	10,343
Change in due to/from	(11,908)	11,908	-0-	-0-
Net Cash Used by Operating Activities:	(876,895)	(25,176)	(902,071)	(43,498)
Cash Flows from Investing Activities:				
Maturities of designated investments	-0-	-0-	-0-	287,000
Net Cash Provided by Investing Activities:	-0-	-0-	-0-	287,000
Cash Flows from Financing Activities:				
Proceeds from issuance of line of credit and note payable	520,000	-0-	520,000	-0-
Repayment of note payable	(12,916)	-0-	(12,916)	-0-
Net Cash Provided by Financing Activities:	507,084	-0-	507,084	-0-
Net Increase (Decrease) in Cash and Cash Equivalents	(369,811)	(25,176)	(394,987)	243,502
Cash and Cash Equivalents, Beginning of Year	478,571	79,455	558,026	314,524
Cash and Cash Equivalents, End of Year	<u>\$ 108,760</u>	<u>\$ 54,279</u>	<u>\$ 163,039</u>	<u>\$ 558,026</u>
Supplementary Cash Flow Information:				
Interest paid	<u>\$ 6,360</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2012 and 2011

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. 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.
- C. 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 collectability 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 the development.
- D. 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

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2012 and 2011

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. The Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.

- E. 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.
- F. Deferred income represents assessments received during the current year which are applicable to the following year.
- G. 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.
- H. 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.
- 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. Concentration of Credit Risk

The Association maintains demand accounts at various banks. At October 31, 2012 and 2011 these accounts exceeded the federally insured limits by \$-0- and \$294,669, 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.

4. 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, 2012 and 2011

5. Income Taxes

The provision for income taxes is as follows:

	2012	2011
Federal	\$ -0-	\$ 688
State	-0-	2,322
Total	<u>\$ -0-</u>	<u>\$ 3,010</u>

6. 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.

7. Special Assessment

During the year ended October 31, 2012 and 2011, the Association approved two special assessments on all 180 units totaling \$700,000 and \$540,000, respectively for the purpose of funding legal costs related to the retention pond litigation. The first of the special assessment was due and payable by October 1, 2011 and the second was due and payable by March 15, 2012. As of October 31, 2012 and 2011, the amount of special assessment revenue recognized was \$748,180, which included \$48,180 of additional revenue from certain members electing to pay on the payment plan, and \$540,000, respectively. For the second assessment, owners were given the option to pay \$3,889 all at once or \$4,914 in 84 monthly payments. As of October 31, 2012 and 2011, the amounts owed to the Association for the first and second assessments are approximately \$218,000 and \$49,000, respectively.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2012 and 2011

8. Legal Action

During 2011, the Association filed a lawsuit against the land owner of the retention pond for potential property damage resulting from underground water believed to be migrating onto its property. The lawsuit had not been settled as of the issuance of this report.

During the years ended October 31, 2012 and 2011, the Association incurred expenses of approximately \$1,410,000 and \$1,267,000, respectively, related to this claim.

9. Line of Credit and Note Payable

During October 2012, the Association entered into a line of credit in the amount of \$600,000 at an interest rate of 6%. The funds are available for twelve months as a non-revolving line of credit. Interest is payable on the unpaid principal balance for the actual number of days elapsed. Principal payments will be made in December 2013, June 2014 and October 2014 (the maturity date). Principal payments will be in the amount of \$250,000 or the full amount of any lesser unpaid principal balance outstanding on the date. The line of credit is secured by all deposit accounts held with the lender as well as all rights of the Association to levy and collect assessments and other income stipulated by the agreement. Future principal payments are as follows:

2013	\$	250,000
2014		50,000
	\$	<u>300,000</u>

During April, 2012, the Association borrowed \$220,000 at an interest rate of 5.9%. Monthly fully amortizing payments are \$3,213 for a term of eighty-four months. The note is secured by all deposit accounts held with the lender as well as all rights of the Association to levy and collect assessments and other income stipulated by the agreement. Future principal payments are as follows:

2013	\$	27,059
2014		28,700
2015		30,440
2016		32,285
2017		34,242
2018-2019		54,358
	\$	<u>207,084</u>

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2012 and 2011

10. 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 were 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, 2012 and 2011, the operating fund owed the replacement fund \$525,624 and \$537,532, which includes the interfund loan balances of \$378,000 for both years.

11. Subsequent Events

The Association has performed an evaluation by management of subsequent events through January 11, 2013, 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, 2012

(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, 2012 was \$54,279. The 2012/13 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	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>