

ASPEN GROVE CONDOMINIUM ASSOCIATION

Northstar, California

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

October 31, 2013 and 2012

ASPEN GROVE CONDOMINIUM ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Aspen Grove Condominium Association

Report on the Financial Statements

We have audited the accompanying financial statements of the Aspen Grove Condominium Association, which comprise the balance sheet as of October 31, 2013, and the related statements of revenue and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aspen Grove Condominium Association as of October 31, 2013, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Required Supplementary Information on Future Major Repairs and Replacements on page 11 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.

Comparative Information

Information for the year ended October 31, 2012 is presented for comparative purposes only and was extracted from the financial statements presented for that year, on which we expressed an unqualified opinion on our report dated January 11, 2013.

McClintock Accountancy Corporation

McCLINTOCK ACCOUNTANCY CORPORATION
Tahoe City, California
January 23, 2014

ASPEN GROVE CONDOMINIUM ASSOCIATION

Exhibit A

BALANCE SHEETS

October 31, 2013 (with comparative totals for 2012)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
Cash and cash equivalents	\$ 45,524	\$ 170,958	\$ 216,482	\$ 163,039
Assessments receivable, net of allowance for doubtful accounts of \$0 in 2013 and \$19,899 in 2012	5,744	-0-	5,744	2,822
Special assessments receivable (Note 7), net of allowance for doubtful accounts of \$0 for 2013 and \$3,000 for 2012	149,003	-0-	149,003	214,832
Prepaid taxes	2,296	-0-	2,296	2,286
Due to/from (Note 10)	(490,757)	490,757	-0-	-0-
Total Assets	<u>\$ (288,190)</u>	<u>\$ 661,715</u>	<u>\$ 373,525</u>	<u>\$ 382,979</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 588,907	\$ -0-	\$ 588,907	\$ 442,407
Line of credit (Note 9)	347,817	-0-	347,817	300,000
Deferred revenue	21,853	-0-	21,853	24,914
Notes payable (Note 9)	330,152	-0-	330,152	207,084
Total Liabilities	1,288,729	0	1,288,729	974,405
Total Fund Balances	<u>(1,576,919)</u>	<u>661,715</u>	<u>(915,205)</u>	<u>(591,426)</u>
Total Liabilities and Members' Equity	<u>\$ (288,190)</u>	<u>\$ 661,715</u>	<u>\$ 373,525</u>	<u>\$ 382,979</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, 2013 (with comparative totals for 2012)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
REVENUE				
Dues	\$ 535,479	\$ 120,000	\$ 655,479	\$ 656,820
Special assessment (Note 7)	262,860	-0-	262,860	748,180
Late charges	1,201	-0-	1,201	4,714
Investment income	-0-	-0-	-0-	5
Utility fees	14,400	-0-	14,400	14,532
Miscellaneous income	-0-	12	12	-0-
Total Revenue	813,940	120,012	933,952	1,424,251
EXPENSES				
Administrative and General:				
Management fee	56,500	-0-	56,500	54,160
Insurance	69,900	-0-	69,900	67,044
Meetings	4,723	-0-	4,723	5,633
Accounting	9,550	-0-	9,550	9,075
Legal and consulting	776,326	-0-	776,326	1,384,693
Bad debt expense (recovery)	(7,936)	-0-	(7,936)	12,724
Office	8,340	-0-	8,340	5,362
Income tax provision (benefit)	(10)	-0-	(10)	0
Interest expense	45,120	-0-	45,120	6,360
Miscellaneous	416	-0-	416	19,474
	962,930	-0-	962,930	1,564,525
Utilities:				
Electricity and natural gas	19,620	-0-	19,620	15,992
	19,620	-0-	19,620	15,992
Maintenance and operations:				
Building maintenance	77,589	-0-	77,589	79,462
Grounds maintenance	65,469	-0-	65,469	16,892
Retention pond	19,264	-0-	19,264	77,786
Staining and siding	-0-	-0-	-0-	12,656
Snow removal	41,059	-0-	41,059	48,062
Security	26,604	-0-	26,604	25,404
Pest control	6,995	-0-	6,995	5,252
Concrete pier	-0-	-0-	-0-	14,804
Asphalt pathway	-0-	-0-	-0-	10,107
Roof replacement	-0-	38,200	38,200	13,700
Tower building - refurbishment	-0-	-0-	-0-	1,430
Water heater replacement	-0-	-0-	-0-	15,300
Flashing kickers	-0-	-0-	-0-	14,530
	236,980	38,200	275,181	335,385
Total Expenses	1,219,530	38,200	1,257,731	1,915,902
Revenue Over (Under) Expenses	(405,590)	81,812	(323,778)	(491,651)
Fund Balances, Beginning of Year	(1,171,329)	579,903	(591,426)	(99,775)
Fund Balances, End of Year	\$ (1,576,919)	\$ 661,715	\$ (915,205)	\$ (591,426)

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, 2013 (with comparative totals for 2012)

	2013			2012
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Revenue Over (Under) Expenses	\$ (405,590)	\$ 81,812	\$ (323,779)	\$ (491,651)
Adjustments to Reconcile Revenue Under Expenses to Net Cash Used by Operating Activities:				
Bad debt expense	(7,936)	-0-	(7,936)	12,724
Change in accounts receivable	5,013	-0-	5,013	36,691
Change in accounts receivable-special assessment	65,831	-0-	65,831	(217,832)
Change in prepaid taxes	(10)	-0-	(10)	-0-
Change in accounts payable	146,502	-0-	146,502	(242,560)
Change in assessments paid in advance	(3,060)	-0-	(3,060)	557
Change in due to/from	(34,867)	34,867	-0-	-0-
Net Cash provided (used) by Operating Activities:	(234,117)	116,679	(117,439)	(902,071)
Cash Flows from Financing Activities:				
Proceeds from issuance of line of credit and notes payable	450,000	-0-	450,000	520,000
Repayment of line of credit and notes payable	(279,119)	-0-	(279,119)	(12,916)
Net Cash Provided by Financing Activities:	170,881	-0-	170,881	507,084
Net Increase (Decrease) in Cash and Cash Equivalents	(63,236)	116,679	53,443	(394,987)
Cash and Cash Equivalents, Beginning of Year	108,760	54,279	163,039	558,026
Cash and Cash Equivalents, End of Year	<u>\$ 45,524</u>	<u>\$ 170,958</u>	<u>\$ 216,482</u>	<u>\$ 163,039</u>
Supplementary Cash Flow Information:				
Interest paid	<u>\$ 45,120</u>	<u>\$ -0-</u>	<u>\$ 45,120</u>	<u>\$ 6,360</u>

The accompanying notes are an integral part of these statements.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2013 and 2012

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.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2013 and 2012

- 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 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 revenue 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, 2013 and 2012 these accounts did not exceed the federally insured limits.

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, 2013 and 2012

5. Income Taxes

The provision (benefit) for income taxes is as follows:

	2013	2012
Federal	\$ (10)	\$ -0-
State	-0-	-0-
Total	<u>\$ (10)</u>	<u>\$ -0-</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 \$2,448,330. 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, 2013, the Association approved a special assessment on all 180 units totaling \$1,080,000 that would be levied in three phases. The first phase of the special assessment for \$1,500 per unit was due and payable on September 15, 2013. The second phase of the special assessment for \$1,500 per unit will be due on February 14, 2014. The third special assessment of \$3,000 will be due on September 15, 2014. The purpose of this special assessment is for paying the line of credit and legal costs related to the retention pond litigation.

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 on October 1, 2011 and the second was due and payable on March 15, 2012. For the second assessment, owners were given the option to pay \$3,889 all at once or \$4,914 in 84 monthly payments.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2013 and 2012

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.

9. Notes Payable and Line of Credit

During August 2013, the Association entered into an unsecured note from a homeowner for \$150,000 at an interest rate of 10%, to help finance its line of credit and legal costs. Interest payments of \$3,750 will be made quarterly. The principal of \$150,000 is due on October 15, 2018. The Association is authorized to borrow another \$669,000 from other homeowners if deemed necessary.

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:

2014	\$	28,700
2015		30,440
2016		32,285
2017		34,242
2018-2019		54,358
	\$	<u>180,025</u>

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). A principal payment of \$250,000 was made in October 2013. 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 include \$347,817 to be paid in 2014.

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. As of October 31, 2013 the loan is still outstanding.

ASPEN GROVE CONDOMINIUM ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

October 31, 2013 and 2012

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, 2013 and 2012, the operating fund owed the replacement fund \$490,757 and \$525,664, respectively, which includes the interfund loan balances of \$378,000 for 2012.

11. Subsequent Events

During the fiscal year ended October 31, 2013, the Association distributed a letter to their homeowners seeking member-based financing in the form of a loan by members to the Association. The Association requested that all interested parties respond no later than May 10, 2013. As of October 31, 2013, 61 members pledged to loan up to \$669,000 in aggregate.

Subsequent to year end, on November 4, 2013, the Association borrowed \$150,000 in aggregate from the above mentioned homeowners under unsecured lending agreements at an interest rate of 10% to be paid quarterly. Principal is due in five years. The proceeds of this loan will assist the association in covering the ongoing legal costs associated with the lawsuit against the landowner.

The Association has performed an evaluation by management of subsequent events through January 23, 2014, 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, 2013

(Unaudited)

(See Independent Auditors' Report)

The Association's independent consultants completed a study in fiscal year 2012 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 2.5% 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, 2013 was \$170,958. The 2013/14 budgeted assessments to be allocated to the replacement fund are \$134,400.

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
Paving	10-20	2-16	\$ 397,094
Concrete	3	1	10,000
Siding/Trim replacement	1-25	1-23	316,110
Decking/Balconies	10-20	8-10	467,366
Roofing	25-30	5-28	1,043,600
Lighting	20-25	10-24	151,560
Signage	12-15	8-10	15,000
Mechanical equipment	6	5	18,000
Flooring	10	8	1,400
Appliances	2	2	1,600
Miscellaneous	3	2	20,000
Reserve study	3	0	6,600
			<u>\$ 2,448,330</u>