

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

Tahoe Vista, California

FINANCIAL STATEMENTS - CASH BASIS

AND

INDEPENDENT AUDITORS' REPORT

December 31, 2016 and 2015

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Tahoe Sands Time Share Owners Association

We have audited the accompanying financial statements of Tahoe Sands Time Share Owners Association, which comprise the statements of assets, liabilities and fund balance as of December 31, 2016 and 2015, and the related statements of cash receipts and disbursements and changes in fund balance for the years 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 the basis of account described in Note 2; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 opinions.

As described in Note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balance of Tahoe Sands Time Share Owners Association as of December 31, 2016 and 2015, and the changes in its cash receipts and disbursements and changes in fund balance for the years then ended in conformity with the basis of accounting described in Note 2.

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 Replacement on pages 9-10 be presented to supplement the basic financial statements. Such information, although not 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
March 27, 2017

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

Exhibit A

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 853,130	\$ 730,591
Cash and cash equivalents, designated (Note 4)	<u>404,516</u>	<u>403,349</u>
Total Assets	<u><u>\$ 1,257,646</u></u>	<u><u>\$ 1,133,940</u></u>
 LIABILITIES AND FUND BALANCE		
Liabilities	<u>\$ -0-</u>	<u>\$ -0-</u>
Fund Balance	<u>1,257,646</u>	<u>1,133,940</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,257,646</u></u>	<u><u>\$ 1,133,940</u></u>

The accompanying notes are an integral part of these statements.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

Exhibit B

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS AND CHANGES IN FUND BALANCE
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Receipts		
Homeowner assessments	\$ 1,255,283	\$ 1,156,707
Room revenue (Note 6)	344,048	312,900
Late fees	14,893	15,367
Gift shop, activities and front desk, net of cost of sales of \$7,582 and \$8,134 for 2016 and 2015, respectively	6,872	9,278
Miscellaneous income	6,020	8,280
Transfer fees	1,500	2,800
Interest income	2,215	1,479
Total Cash Receipts	<u>1,630,831</u>	<u>1,506,811</u>
Cash Disbursements		
Management and Front Desk		
Salaries, benefits and workman's comp	248,860	224,843
Hospitality	9,698	8,646
Office supplies	18,309	15,492
Housekeeping		
Salaries, benefits and workman's comp	180,160	178,656
Linen replacement	6,812	5,723
Supplies	17,792	21,618
Carpet cleaning	6,167	6,116
Maintenance		
Salaries, benefits and workman's comp	143,747	125,381
Appliance repairs	54	2,346
Building and buoy field repairs	38,029	41,422
Grounds repairs and supplies	4,481	3,640
Pest control	2,307	1,989
Pool repairs and supplies	6,028	4,140
Snow removal	4,044	1,407
Supplies	6,337	7,370
Automobile	8,440	7,364
Lighting	1,989	632
Windows	2,578	227
Fire protection	189	195
Utilities	167,742	158,424
General and Administrative		
Management contract	187,299	226,208
Payroll tax	55,795	49,664
Insurance	46,167	44,629
Property tax	36,723	38,821
Transient occupancy tax	26,480	20,866
Bank charges	19,423	17,938
Board and annual meeting	9,580	10,416
Printing	7,354	9,756
Employee incentive	4,334	4,328
Postage	3,520	3,763
Training	15	839
Permits and fees	2,780	2,451
Travel	-0-	631
Audit & tax fees	6,537	9,912
Loan interest	-0-	101
Legal	-0-	301
Reserve study	1,470	-0-
Replacement (Note 8)	225,885	127,492
Total Cash Disbursements	<u>1,507,125</u>	<u>1,383,747</u>
Cash Receipts over Cash Disbursements	123,706	123,064
Fund Balance, Beginning of Year	1,133,940	1,010,876
Fund Balance, End of Year	<u>\$ 1,257,646</u>	<u>\$ 1,133,940</u>

The accompanying notes are an integral part of these statements.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

1. Form of Organization

Tahoe Sands Time Share Owners Association (the "Association") is an incorporated association organized under the laws of the State of California on October 21, 1981. The Association's members consist of those persons or entities who own condominium units at the Tahoe Sands Resorts, a timeshare estate project in Tahoe Vista, California. The Association is a non-profit mutual benefit corporation that was organized for the purpose of providing management, administration, preservation, repair, operation and architectural control of common property within the Association. The Association is supported by the assessments of the sold units within the development. There are 53 condominium units in the development for a total of 2,729.5 timeshare intervals. There are 1,129.5 and 1,067 unsold intervals as of December 31, 2016, and 2015, respectively, which are assigned to and controlled by the Association's management company and not subject to assessment.

2. Summary of Significant Accounting Policies

- A. The Association prepares its financial statements on the cash basis of accounting. Consequently, revenue is recognized when received rather than when earned, and expenses and purchases of assets are recognized when cash is disbursed rather than when the obligation is incurred. Additionally, purchases of assets are expensed rather than reflected on the Association's balance sheet.
- B. Association members are subject to assessments billed annually to provide funds for the Association's operating expenses and major repairs and replacement. The Association's policy includes, among other things, assessing a late charge and interest on assessments unpaid after 30 days, retaining a collection agency and placing liens on the property of the members whose assessments are delinquent. The Association derives a significant portion of its revenues from dues assessments that are levied against each member within the development.
- C. 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. In general, the Association's three previous federal tax returns and four previous state tax returns are available for examination by the taxing authorities.
- D. Cash and cash equivalents are defined as cash held in demand accounts and money market accounts.
- E. The carrying amounts of financial instruments, including cash approximates their fair value due to the short term maturities of these instruments.

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

3. Concentration of Credit Risk

The Association maintains accounts at various banks. At December 31, 2016 and 2015 the accounts exceeded the federally insured limit by \$440,336 and \$359,882, respectively.

4. Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes.

Based on a study completed in 2009, the estimated current replacement costs of the common areas being reserved for was \$1,657,938. The remaining useful lives of the common area components being reserved for were estimated to range from zero to 19 years. The Association is not currently funding for such major repairs and replacements based on the study's estimates. 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.

5. Income Taxes

The provisions (benefits) for income taxes are as follows:

	2016	2015
Federal	\$ -0-	\$ 434
State	(190)	359
	<u>\$ (190)</u>	<u>\$ 793</u>

6. Rental of Unoccupied Units

In addition to owners who occupy the timeshare units in the Association, other programs allow for additional owner usage and non-owner usage, which are as follows:

A. Owners may reserve and use certain units under a bonus time program. Bonus time, as defined, is available to owners on a first-come, first-serve basis for a per-night fee.

B. The Association also rents unsold intervals and retains the related rental revenue.

7. Contract for Services

Under the terms of a management agreement, management, maintenance and operating 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. Expenses for the management agreement were \$187,229 and

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

\$226,208 and contributed to 12% and 16% of the Association's total cash disbursements for the year ended December 31, 2016 and 2015, respectively. The current management contract runs through December 31, 2020.

8. Replacement Expenses

Replacement expenses for the year ending December 31, 2016 and 2015 are as follows:

	2016	2015
Internet replacement	\$ -0-	\$ 34,746
Window replacement	25,422	11,925
Unit 506/507/508 kitchen/deck remodel	-0-	30,664
Cookware sets	1,852	-0-
Pools	18,834	-0-
Decking	41,984	8,328
Drapes for 100s	10,147	-0-
Living area chairs	3,870	-0-
Paver walkways	-0-	17,210
Lobby (ADA)	7,025	-0-
Lobby remodel	12,909	-0-
Lobby kitchen	6,007	-0-
Queen mattresses	3,073	-0-
Sofa sleeper replacement	19,997	-0-
Flat screen TVs	9,986	-0-
Appliance replacement	3,174	1,380
Flooring	47,349	23,239
Murphy bed mattresses	3,270	-0-
Exterior painting	4,483	-0-
305 repair	2,862	-0-
Website	3,316	-0-
Phone lines	325	-0-
Total	\$ 225,885	\$ 127,492

9. Commitment

In April of 2011, the Association entered into a settlement agreement and mutual release with its management company whereby the Association forgave a \$375,000 promissory note plus accrued interest. In return the management company applied this amount against an alleged liability owed to the management company in relation to the assignment of unsold intervals estimated to be greater than \$1,700,000.

In addition, a new management agreement was entered into involving an increase of the management fee from 10% to 20% of gross collections of all assessments for each year for the first five years of the new agreement as further consideration toward the estimated

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NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016 and 2015

\$1,700,000 liability mentioned above. All amounts owed were considered to be fully satisfied upon expiration of the five year management agreement term in December of 2015.

10. Subsequent Events

Subsequent events have been evaluated by management through March 27, 2017, the date that the statements were available for issuance.

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

**REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS**
December 31, 2016
(Unaudited)

The Association's Board of Director's engaged a consultant during 2009 to prepare a study of the estimated useful lives, the life after replacement and the replacement costs of the components of common property. The estimates were based on the consultants and contractor's estimates and historical costs. An inflation factor of 3% is incorporated into the study.

The Association is aware that the 2009 study is outdated. An updated study is planned for 2017. Recommended funding levels will likely change, but at this time those changes are unknown.

The total cash available for major repairs and replacements as of December 31, 2016, is \$404,516.

The following table is based on the study and presents significant information about the components of common property for which funds are being set aside.

Component	Estimated Remaining Life (Years)	Life After Replacement (Years)	Current Replacement Cost
General Common Area:			
Pebbled Deck/Walk	0	4	\$ 6,800
Indoor Carpet	0	6	13,400
Asphalt	0-5	2-15	125,125
HVAC Unit	4	15	6,000
Telephone System	9	25	20,000
Laundry Equipment	0-11	12-15	35,750
Lighting	0-9	15-20	6,325
Patio Furniture/Play Equipment	3	8	29,000
BBQ Grills	1	8	1,200
ADA Ramp/Handrail	0	20	1,200
Fences/Railings	0-14	3-30	60,625
Water Heater/Boiler Appliances	13-19	15-20	21,500
Sauna	9-14	20-25	7,925
Interior	1	10	2,700
Doors/Railings	0-1	3-4	21,475
Exterior Surfaces	0	4	67,100
Roofs	5	25	159,013
Signs	0	4	1,875
Basketball Hoop	1	6	600
Sewage Pump	8	10	1,500
Automobile	6	10	21,000
Outdoor Equipment	2-5	10-15	13,650
Pool & Spa:			
Replaster	0-7	10	12,500
Acrylic	5	15	4,500
Filters	2	12	4,100
Heaters	4-7	8	6,900
Pumps	1	3	900

TAHOE SANDS TIME SHARE OWNERS ASSOCIATION

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND
REPLACEMENTS
December 31, 2016
(Unaudited)

(Continued)

Component	Estimated Remaining Life (Years)	Life After Replacement (Years)	Current Replacement Cost
Unit Interiors:			
Carpet	1	5	30,000
Floors	6	10	8,400
Kitchen	5	15-25	214,200
Bathrooms	5	15	191,100
Art/Accessories	0-4	1-15	27,500
Fireplaces	11	20	15,500
Patio/Decks	0-1	3-10	5,100
Television	0	1	6,000
Furniture	0-9	5-10	329,000
Window Treatment	4	10	96,750
Door Locks	1	20	13,725
Unit Internet	0	10	10,000
Individual Unit	0	1	35,000
Total Replacement Expenses			<u>\$ 1,657,938</u>