

## TAHOE DONNER ASSOCIATION

### Communications With Those Charged With Governance

*Submitted by*

**Gilbert Associates, Inc.**

We have audited the financial statements of Tahoe Donner Association (Association) for the year ended December 31, 2015. We are providing the Association's Board of Directors with information regarding the scope and results of the audit to assist in the oversight of management's financial reporting and disclosure process. This information is intended solely for the use of the Board of Directors and management of the Association and is not intended to be, and should not be, used by anyone other than these specified parties. The following pages summarize these required communications.

March , 2016



**Gilbert Associates, Inc.**  
CPAs and Advisors

*Relax. We got this.™*

## RESPONSIBILITIES AND OPINIONS

<p>The financial statements are the          our engagement letter, our responsibility is to          express an opinion about whether the          financial statements prepared by management          with your oversight are fairly presented, in all          material respects, in conformity with U.S.          generally accepted accounting principles. Our          audit of the financial statements does not          relieve you or management of their          responsibilities.</p> <p>As part of our audit, we considered the internal          control of the Association. Such considerations          were solely for the purpose of determining our          audit procedures and not to provide any          assurance concerning such internal control.</p>	<p><b>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)</b></p> <p>We issued an unmodified opinion on the          financial statements of the Association for the          year ended December 31, 2015.</p>
<p>The supplementary information on Future          Major Repairs and Replacements is not part          of the basic financial statements, but is          required by generally accepted accounting          principles, which 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 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.</p>	<p><b>Supplementary Information</b></p> <p>With respect to the supplementary          information accompanying the financial          statements, we made certain inquiries of          management and evaluated the form, content,          and methods of preparing the information to          determine that the information complies with          accounting principles generally accepted in          the United States of America, the method of          preparing it has not changed from the prior          period, and the information is appropriate and          complete in relation to our audit of the          financial statements.</p>

## INTERACTIONS WITH MANAGEMENT

<p><b>Management Consultations with Other Independent Accountants</b></p> <p>In some cases, management may decide to          consult with other accountants about auditing          and accounting matters, similar to obtaining a          "second opinion" on certain situations. If a          consultation involves application of an          accounting principle to the Association's          financial statements or a determination of the          type of auditor's opinion that may be expressed          on those statements, our professional standards          require the consulting accountant to check with          us to determine that the consultant has all the          relevant facts.</p>	<p><b>Disagreements with Management</b></p> <p>For purposes of this letter, professional          standards define a disagreement with          management as a financial accounting,          reporting, or auditing matter, whether or not          resolved to our satisfaction, that could be          significant to the financial statements or the          auditor's report.</p>
<p>To our knowledge, there were no such          consultations with other accountants.</p>	<p>We are pleased to report that no such          disagreements arose during the course of our          audit.</p>
<p><b>Management Representations</b></p> <p>We have requested certain representations          from management that are included in their          letter to us.</p>	<p><b>Difficulties Encountered in Performing the Audit</b></p> <p>We encountered no significant difficulties in          dealing with management in performing and          completing our audit. Management and staff          were well prepared and cooperative.</p>

## QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

<p><b>Significant Accounting Policies</b></p> <p>Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.</p>	<p>The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015.</p> <p>We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.</p>
<p><b>Management Judgments and Accounting Estimates</b></p> <p>Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.</p>	<p>We considered the methodologies and judgments used in assessing the collectability of accounts receivable and selection of useful lives of property and equipment. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. In addition, the related financial statement disclosures are neutral, consistent and clear.</p>

## RESULTS OF THE AUDIT

<p><b>Planned Scope and Timing of the Audit</b></p>	<p>We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.</p>
<p><b>Other Audit Findings or Issues</b></p>	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.</p>
<p><b>Significant Adjustments or Disclosures Not Reflected in the Financial Statements</b></p> <p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.</p>	<p>No significant adjustments or omitted disclosures were identified during our audit.</p>



**TAHOE DONNER  
ASSOCIATION**

**FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED DECEMBER 31,  
2015 AND 2014**

## INDEPENDENT AUDITOR'S REPORT

**Board of Directors  
Tahoe Donner Association  
Truckee, California**

We have audited the accompanying financial statements of Tahoe Donner Association (Association), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in members' equity, and of cash flows for the years then ended.

### *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.

### *Auditor's 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 of 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 auditor's 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 Association'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 Tahoe Donner Association as of December 31, 2015 and 2014, and the changes in members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by generally accepted accounting principles, which 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.

**GILBERT ASSOCIATES, INC.**  
Sacramento, California

**March**     , 2016

# TAHOE DONNER ASSOCIATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2015 AND 2014

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2015	Total 2014
<b>ASSETS:</b>							
Cash	\$ 562,230					\$ 562,230	\$ 1,472,086
Cash, designated and restricted	341,987	\$ 21,935	\$ 4,490	\$ 395,251		763,663	1,386,399
Investments	4,386,449					4,386,449	2,539,053
Investments, designated and restricted		8,091,803	119,564	249,431		8,460,798	8,217,864
Assessments and other member receivables, net of allowance for doubtful accounts of \$103,065 in 2015 and \$94,572 in 2014	309,129					309,129	281,625
Other receivables	87,397	5,477		1,224		94,098	70,111
Inventory	312,287					312,287	316,593
Prepaid expenses and other assets	753,209					753,209	679,148
Due from (to) other funds	(87,392)	(78,289)	7,956	157,725			
Net property and equipment					\$40,443,249	40,443,249	38,296,530
<b>TOTAL ASSETS</b>	<b><u>\$ 6,665,296</u></b>	<b><u>\$ 8,040,926</u></b>	<b><u>\$ 132,010</u></b>	<b><u>\$ 803,631</u></b>	<b><u>\$40,443,249</u></b>	<b><u>\$56,085,112</u></b>	<b><u>\$53,259,409</u></b>
<b>LIABILITIES AND MEMBERS' EQUITY:</b>							
Accounts payable	\$ 215,060	\$ 96,134	\$ 5,844	\$ 114,198		\$ 431,236	\$ 405,388
Deferred revenues	3,104,148	1,085,309	59,630	496,936		4,746,023	4,773,169
Deposits from members	228,840					228,840	188,535
Accrued liabilities	1,162,973					1,162,973	1,269,627
<b>TOTAL LIABILITIES</b>	<b>4,711,021</b>	<b>1,181,443</b>	<b>65,474</b>	<b>611,134</b>		<b>6,569,072</b>	<b>6,636,719</b>
<b>MEMBERS' EQUITY</b>	<b><u>1,954,275</u></b>	<b><u>6,859,483</u></b>	<b><u>66,536</u></b>	<b><u>192,497</u></b>	<b><u>\$40,443,249</u></b>	<b><u>49,516,040</u></b>	<b><u>46,622,690</u></b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b><u>\$ 6,665,296</u></b>	<b><u>\$ 8,040,926</u></b>	<b><u>\$ 132,010</u></b>	<b><u>\$ 803,631</u></b>	<b><u>\$40,443,249</u></b>	<b><u>\$56,085,112</u></b>	<b><u>\$53,259,409</u></b>

The accompanying notes are an integral part of these financial statements.



**TAHOE DONNER ASSOCIATION**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY  
DECEMBER 31, 2015 AND 2014**

	OPERATIONS			CAPITAL			TOTALS		
	Amenities	Homeowners' Association	Total Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2015	Total 2014
<b>OPERATING REVENUES:</b>									
Access and use fees	\$ 3,207,808		\$ 3,207,808					\$ 3,207,808	\$ 2,831,169
Retail sales	3,399,759		3,399,759					3,399,759	3,075,344
Lessons and rental revenue	1,193,456		1,193,456					1,193,456	957,805
Other revenues	272,764	\$ 600,489	873,253					873,253	811,447
Interest income		6,804	6,804	\$ 26,967	\$ 10	\$ 949		34,730	17,465
Gross operating revenues	8,073,787	607,293	8,681,080	26,967	10	949		8,709,006	7,693,230
Cost of goods sold	(1,198,924)		(1,198,924)					(1,198,924)	(1,053,008)
Net operating revenues	6,874,863	607,293	7,482,156	26,967	10	949		7,510,082	6,640,222
<b>OPERATING EXPENSES:</b>									
Salaries and wages	3,983,153	3,326,257	7,309,410					7,309,410	6,752,263
Payroll taxes and employee benefits	1,181,741	857,323	2,039,064					2,039,064	1,929,667
Supplies and maintenance	880,277	326,780	1,207,057					1,207,057	855,210
Utilities	519,675	249,639	769,314					769,314	763,652
Insurance	246,337	155,382	401,719					401,719	359,442
Other employee expenses	83,976	113,240	197,216					197,216	154,534
Income tax expense		36,700	36,700	5,206		90		41,996	14,311
Other expenses	462,800	659,620	1,122,420	13,300		7,883		1,143,603	905,692
Total operating expenses	7,357,959	5,724,941	13,082,900	18,506		7,973		13,109,379	11,734,771
<b>NET OPERATING INCOME (LOSS)</b>	<u>(483,096)</u>	<u>(5,117,648)</u>	<u>(5,600,744)</u>	<u>8,461</u>	<u>10</u>	<u>(7,024)</u>		<u>(5,599,297)</u>	<u>(5,094,549)</u>
<b>CAPITAL ACTIVITIES:</b>									
Capital additions and transfers				(2,302,873)	(216,938)	(2,365,024)	\$ 4,884,835		
Gain (loss) on sale or disposal of assets				53,063			(15,305)	37,758	(174,038)
Fund expenses				(470,100)				(470,100)	(329,770)
Depreciation expense							(2,722,811)	(2,722,811)	(2,651,018)
Total capital activities				(2,719,910)	(216,938)	(2,365,024)	2,146,719	(3,155,153)	(3,154,826)
<b>ASSESSMENTS:</b>									
Assessment revenues	842,512	5,588,288	6,430,800	3,405,000	194,000	1,618,000		11,647,800	10,353,600
<b>INCREASE (DECREASE) IN MEMBERS' EQUITY</b>	<u>\$ 359,416</u>	<u>\$ 470,640</u>	<u>830,056</u>	<u>693,551</u>	<u>(22,928)</u>	<u>(754,048)</u>	<u>2,146,719</u>	<u>2,893,350</u>	<u>2,104,225</u>
<b>MEMBERS' EQUITY, December 31, 2014</b>			<u>1,124,219</u>	<u>6,165,932</u>	<u>89,464</u>	<u>946,545</u>	<u>38,296,530</u>	<u>46,622,690</u>	<u>44,518,465</u>
<b>MEMBERS' EQUITY, December 31, 2015</b>			<u>\$ 1,954,275</u>	<u>\$ 6,859,483</u>	<u>\$ 66,536</u>	<u>\$ 192,497</u>	<u>\$ 40,443,249</u>	<u>\$ 49,516,040</u>	<u>\$ 46,622,690</u>

The accompanying notes are an integral part of these financial statements.

S/H

## TAHOE DONNER ASSOCIATION

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY DECEMBER 31, 2015 AND 2014

	OPERATIONS		
	Amenities	Homeowners' Association	Total Operating Fund
<b>OPERATING REVENUES:</b>			
Access and use fees	\$ 3,207,808		\$ 3,207,808
Retail sales	3,399,759		3,399,759
Lessons and rental revenue	1,193,456		1,193,456
Other revenues	272,764	\$ 600,489	873,253
Interest income		6,804	6,804
Gross operating revenues	8,073,787	607,293	8,681,080
Cost of goods sold	(1,198,924)		(1,198,924)
Net operating revenues	6,874,863	607,293	7,482,156
<b>OPERATING EXPENSES:</b>			
Salaries and wages	3,983,153	3,326,257	7,309,410
Payroll taxes and employee benefits	1,181,741	857,323	2,039,064
Supplies and maintenance	880,277	326,780	1,207,057
Utilities	519,675	249,639	769,314
Insurance	246,337	155,382	401,719
Other employee expenses	83,976	113,240	197,216
Income tax expense		36,700	36,700
Other expenses	462,800	659,620	1,122,420
Total operating expenses	7,357,959	5,724,941	13,082,900
<b>NET OPERATING INCOME (LOSS)</b>	<b>(483,096)</b>	<b>(5,117,648)</b>	<b>(5,600,744)</b>
<b>CAPITAL ACTIVITIES:</b>			
Capital additions and transfers			
Gain (loss) on sale or disposal of assets			
Fund expenses			
Depreciation expense			
Total capital activities			
<b>ASSESSMENTS:</b>			
Assessment revenues	842,512	5,588,288	6,430,800
<b>INCREASE (DECREASE) IN MEMBERS' EQUITY</b>	<b>\$ 359,416</b>	<b>\$ 470,640</b>	<b>830,056</b>
<b>MEMBERS' EQUITY, December 31, 2014</b>			<b>1,124,219</b>
<b>MEMBERS' EQUITY, December 31, 2015</b>			<b>\$ 1,954,275</b>

The accompanying notes are an integral part of these financial statements.

## TAHOE DONNER ASSOCIATION

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY DECEMBER 31, 2015 AND 2014

CAPITAL				TOTALS	
Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2015	Total 2014
				\$ 3,207,808	\$ 2,831,169
				3,399,759	3,075,344
				1,193,456	957,805
				873,253	811,447
\$ 26,967	\$ 10	\$ 949		34,730	17,465
26,967	10	949		8,709,006	7,693,230
				(1,198,924)	(1,053,008)
<u>26,967</u>	<u>10</u>	<u>949</u>		<u>7,510,082</u>	<u>6,640,222</u>
				7,309,410	6,752,263
				2,039,064	1,929,667
				1,207,057	855,210
				769,314	763,652
				401,719	359,442
				197,216	154,534
5,206		90		41,996	14,311
13,300		7,883		1,143,603	905,692
<u>18,506</u>		<u>7,973</u>		<u>13,109,379</u>	<u>11,734,771</u>
8,461	10	(7,024)		(5,599,297)	(5,094,549)
(2,302,873)	(216,938)	(2,365,024)	\$ 4,884,835		
53,063			(15,305)	37,758	(174,038)
(470,100)				(470,100)	(329,770)
			(2,722,811)	(2,722,811)	(2,651,018)
<u>(2,719,910)</u>	<u>(216,938)</u>	<u>(2,365,024)</u>	<u>2,146,719</u>	<u>(3,155,153)</u>	<u>(3,154,826)</u>
<u>3,405,000</u>	<u>194,000</u>	<u>1,618,000</u>		<u>11,647,800</u>	<u>10,353,600</u>
693,551	(22,928)	(754,048)	2,146,719	2,893,350	2,104,225
<u>6,165,932</u>	<u>89,464</u>	<u>946,545</u>	<u>38,296,530</u>	<u>46,622,690</u>	<u>44,518,465</u>
<u>\$ 6,859,483</u>	<u>\$ 66,536</u>	<u>\$ 192,497</u>	<u>\$ 40,443,249</u>	<u>\$ 49,516,040</u>	<u>\$ 46,622,690</u>

The accompanying notes are an integral part of these financial statements.

## TAHOE DONNER ASSOCIATION

### STATEMENTS OF CASH FLOWS (page 1 of 2) YEARS ENDED DECEMBER 31, 2015 AND 2014

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2015	Total 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Increase (decrease) in Members' Equity Reconciliation to net cash provided by operating activities:	\$ 830,056	\$ 693,551	\$ (22,928)	\$ (754,048)	\$ 2,146,719	\$ 2,893,350	\$ 2,104,225
Depreciation expense					2,722,811	2,722,811	2,651,018
Capital additions and transfers		2,302,873	216,938	2,365,024	(4,884,835)		
(Gain) loss on sale or disposal of property and equipment		(53,063)			15,305	(37,758)	174,038
Changes in:							
Assessments receivable	(27,504)					(27,504)	31,070
Other receivables	(24,147)	(784)		944		(23,987)	104,225
Inventory	4,306					4,306	(12,158)
Prepaid expenses and other assets	(74,061)					(74,061)	(70,641)
Due from (to) other funds	36,830	86,053	4,468	(127,351)			
Accounts payable	78,158	65,382	2,969	(120,661)		25,848	(117,395)
Deferred revenues	54,249	(39,306)	(4,512)	(37,577)		(27,146)	558,928
Deposits from members	40,305					40,305	23,715
Accrued liabilities	28,346			(135,000)		(106,654)	485,573
Net cash provided by operating activities	<u>946,538</u>	<u>3,054,706</u>	<u>196,935</u>	<u>1,191,331</u>		<u>5,389,510</u>	<u>5,932,598</u>

The accompanying notes are an integral part of these financial statements.

## TAHOE DONNER ASSOCIATION

### STATEMENTS OF CASH FLOWS (page 2 of 2) YEARS ENDED DECEMBER 31, 2015 AND 2014

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2015	Total 2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Purchases of property and equipment		(2,302,873)	(216,938)	(2,365,024)		(4,884,835)	(5,741,720)
Proceeds from sale of property and equipment		53,063				53,063	75,292
Purchases of investments	(9,846,639)	(6,622,346)	(119,564)	(750,024)		(17,338,573)	(14,346,364)
Proceeds from sale of investments	7,999,243	5,500,000		1,749,000		15,248,243	14,642,692
Net cash used by investing activities	<u>(1,847,396)</u>	<u>(3,372,156)</u>	<u>(336,502)</u>	<u>(1,366,048)</u>		<u>(6,922,102)</u>	<u>(5,370,100)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(900,858)	(317,450)	(139,567)	(174,717)		(1,532,592)	562,498
<b>CASH, Beginning of Year</b>	<u>1,805,075</u>	<u>339,385</u>	<u>144,057</u>	<u>569,968</u>		<u>2,858,485</u>	<u>2,295,987</u>
<b>CASH, End of Year</b>	<u>\$ 904,217</u>	<u>\$ 21,935</u>	<u>\$ 4,490</u>	<u>\$ 395,251</u>	<u>\$</u>	<u>\$ 1,325,893</u>	<u>\$ 2,858,485</u>
<b>OTHER CASH FLOW INFORMATION:</b>							
Income taxes paid	<u>\$ 36,700</u>	<u>\$ 5,206</u>	<u>\$</u>	<u>\$ 90</u>	<u>\$</u>	<u>\$ 41,996</u>	<u>\$ 25,008</u>

The accompanying notes are an integral part of these financial statements.

# TAHOE DONNER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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### 1. OPERATIONS

Tahoe Donner Association (Association) is a California nonprofit mutual benefit corporation. The Association's members own the 6,472 membership properties within the Tahoe Donner subdivision in Truckee, California. The Association was organized to provide management services and maintenance of certain common areas owned by the Association. A significant portion of revenue is derived from the assessment of member dues.

The Association operates and maintains facilities, which include a golf course and pro shop, restaurant, downhill ski area, clubhouse, Nordic ski area, beach and marina area, equestrian center, campground, tennis facilities, recreation complex, pools and parks. Revenues are derived from member and non-member usage of these facilities.

The Association's Board of Directors is comprised of five members elected to serve three-year terms by a vote of the members. The Board of Directors governs in accordance with the Association's bylaws and declaration of covenants and restrictions. The Board of Directors establishes members' dues and user fees, and has the ability to enter into long-term contracts. Along with other actions, closing an Association amenity (as defined by the governing documents) requires a vote of the members.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** – The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. 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 Reserve Fund – Used to account for financial resources designated for the repair, restoration, replacement or maintenance of, or litigation involving repair, restoration, replacement or maintenance of, major components which the Association is obligated to repair, restore, replace or maintain and for which the replacement reserve fund was established.

New Machinery & Equipment Fund – Used to account for financial resources designated for the purchase of new machinery, equipment, furnishings and fixtures.

Development Fund – Used to account for financial resources designated for use in the acquisition and enhancement of facilities, equipment and other resources.

Property Fund – Used to account for the Association's investment in its common property and equipment, and other Association real property.

# TAHOE DONNER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

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**Assessment revenue** – Association members are subject to annual dues to provide funds for the Association's operating expenses, major repairs and replacements, development and purchase of new machinery and equipment. Assessment revenue is recognized in the assessment period. Assessments received in advance are deferred until earned. The Association has the right to suspend certain membership rights and pursue collection through foreclosure action. Bad debts are recognized when an account's collectability is uncertain.

**Access and use fee revenues** – Daily fees are charged for access to and use of Association amenities. As an alternate to daily fees, the Association sells recreation passes to members that entitle them to use of various amenities. Revenues from these sales are allocated to the various amenities based upon recreation pass usage.

**Cash** consists of cash on hand, demand deposits at banks and money market funds.

The Association minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Association has not experienced any losses in such accounts and management believes the Association is not exposed to any significant credit risk related to cash.

**Investments** consist of debt securities and certificates of deposits, which are carried at amortized cost as the Association has the positive intent and ability to hold all debt securities and certificates of deposit until maturity.

**Inventories** consist of food and retail goods and are stated at the lower of average cost or market.

**Property and equipment** of the Association includes certain facilities and land contributed by Dart in prior years. These assets are reflected in the accounts at the developers' cost basis. Purchases are stated at cost. The Association capitalizes all expenditures for property and equipment in excess of \$2,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 60 years. These assets are recorded directly in the property fund.

Approximately 3,000 acres of undeveloped non-common area real property owned by the Association is controlled by the Association's declaration of covenants and restrictions, and bylaws.

**Interest income** is allocated to the operating, replacement and reserve, new machinery and equipment and development funds in proportion to the interest-bearing assets of each fund.

**Deferred revenue** represents funds received for assessments and recreation passes during the current year, which are applicable to the following year.

**Income taxes** – The Association is generally exempt from federal income taxes under Internal Revenue Code 501(c)(4). For California purposes, the Association is taxed as a regular corporation. As a membership organization, the Association is generally taxed only on non-member income, such as advertising revenue and golf and ski ticket sales to the public, at regular federal corporate tax rates. The Association has applied the accounting principles related to the accounting for uncertainty in income taxes and has determined there is no material impact on the financial statements. With some exceptions, the Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2011.

# TAHOE DONNER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent events** have been evaluated through March 31, 2016, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2015 that require recognition or disclosure in the financial statements.

### 3. CASH AND INVESTMENTS

At December 31, the Association's cash and investments consisted of undesignated, designated and restricted accounts as follows:

	<u>2015</u>	<u>2014</u>
Replacement reserve fund - designated	\$ 8,113,738	\$ 7,308,842
Development fund - designated	644,682	1,818,375
New machinery and equipment fund - designated	124,054	144,057
Operating fund - undesignated and unrestricted	4,948,679	4,011,139
Operating fund – Trust – restricted (note 7)	101,962	143,938
Operating fund - Architectural standards deposits - restricted (note 5)	<u>240,025</u>	<u>189,051</u>
Total	<u>\$ 14,173,140</u>	<u>\$ 13,615,402</u>

Board designated funds in the replacement reserve fund cannot be expended for any purpose other than the repair, restoration, replacement or maintenance of, or litigation involving repair, restoration, replacement or maintenance of, major components which the Association is obligated to repair, restore, replace or maintain and for which the replacement reserve fund was established as mandated by state law.

Designated funds in the development fund are controlled by board-adopted policy that affords the board discretion in expenditure, except where member approval is required in connection with the intended project.

Since the Association has the positive intent and ability to hold investments until maturity, they are carried at amortized costs determined by specific identification. Unrecognized holding gains and losses are deemed immaterial.



# TAHOE DONNER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Investments at December 31, 2015 mature as follows:

<u>Investment</u>	<u>Within 1 Year</u>	<u>1-5 Years</u>	<u>Total</u>
U.S. Treasury	\$ 10,314,189	\$ 1,990,860	\$ 12,305,049
Certificates of deposit	414,883	127,315	542,198
Total	<u>\$ 10,729,072</u>	<u>\$ 2,118,175</u>	<u>\$ 12,847,247</u>

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 31,004,837	\$ 25,530,230
Fixtures and facility improvements	14,992,899	13,876,969
Equipment	15,400,612	13,015,050
Land and land improvements	8,680,240	8,680,240
Furnishings	1,000,359	919,204
Total	71,078,947	62,021,693
Less accumulated depreciation	<u>(30,740,519)</u>	<u>(28,278,248)</u>
Construction in progress	40,338,428	33,743,445
	<u>104,821</u>	<u>4,553,085</u>
Total	<u>\$ 40,443,249</u>	<u>\$ 38,296,530</u>

#### 5. DEPOSITS FROM MEMBERS

The deposits held by the Association are primarily security deposits from members for the construction of residential real property. The deposits are used to ensure that construction is completed in accordance with the guidelines established by the Association's Architectural Standards Committee. The funds are deposited in a separate trust account and are refundable upon satisfactory completion of construction.

#### 6. REPLACEMENT RESERVE FUND

The Association's policy is to maintain replacement funding levels sufficient to pay for capital replacements, refurbishments and repairs. Replacement funding levels, as determined by a study updated in 2015, are forecast on a 30-year basis with annual updates to replacement schedules, as they become known. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. If additional funds are needed, the Association has the right, subject to any necessary member approval, to increase regular dues, to levy special assessments, or modify and adjust the scheduled major repairs and replacements as necessary.

# TAHOE DONNER ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

### 7. RETIREMENT PLANS

The Association maintains a salary savings plan for all eligible employees. The Association matches 50% of the first 6% of the participant's contribution. Matching contributions are 20% vested after the third year of service and vest at the rate of 20% per year thereafter. Matching contributions expense was \$82,340 and \$43,891 for 2015 and 2014, respectively.

The Association maintains two defined contribution plans which qualify under Section 457(b) and Section 457(f) of the Internal Revenue Code, respectively (the 457 Plans). The 457 Plans allow for additional Association contributions and salary deferrals subject to limitations for eligible executive employees. Contributions to the 457 Plans funds are considered deferred compensation until certain future date conditions are met. The Association's contribution to the 457 Plans was \$63,914 and \$44,709 for the years ended December 31, 2015 and 2014, respectively.

### 8. OPERATING LEASE OBLIGATIONS

The Association has non-cancelable operating leases for copiers, golf carts, land usage and computer equipment. Rental expense under all operating leases was \$173,308 and \$158,101 for 2015 and 2014, respectively. Future minimum lease payments under these leases are as follows:

Year ending December 31:

2016	\$	131,046
2017		126,412
2018		38,802
2019		31,152
2020		14,219
Thereafter		<u>17,256</u>
Total	\$	<u>358,887</u>

# TAHOE DONNER ASSOCIATION

## REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

DECEMBER 31, 2015 (UNAUDITED)

In accordance with state law and sound business practices it is the policy of the Association to fund a reserve program that will adequately provide for repair and replacement of existing Association-owned assets. A 30-year reserve funding and expenditure plan is produced every three years, and updated annually, to schedule and analyze the funding needs. The Association updated its study in 2015 to estimate the remaining useful lives, the lives after replacement and the replacement costs of the components of common property. The estimates were based on estimates from consultants, management, contractors and historical costs. Estimated current replacement costs take into account the effects of inflation 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 reserve fund by component. The total available for major repairs and replacements at December 31, 2015, was \$6,859,000. The 2016 lot assessments include \$3,534,000 to be allocated to the replacement fund.

The Association has not included the replacement of building structures as a component of the replacement study. These structures generally have an estimated useful life greater than 30 years. The Association is accumulating funds in the Development Fund for building replacement.

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.

<u>Component Group</u>	<u>Range of Remaining Lives (Years)</u>	<u>Estimated Life After Replacement (Years)</u>	<u>Current Replacement Costs</u>
Trout Creek, pools & recreation	0-30	1-30	\$ 4,197,589
Marina	0-30	1-30	1,133,668
Tennis complex	0-30	1-30	1,851,968
Downhill ski area	0-30	1-30	6,573,119
Cross country ski area	0-30	1-30	2,771,103
Equestrian	0-30	1-30	734,665
Golf complex	0-30	1-30	10,387,078
Campground	0-30	1-30	610,000
The Lodge	0-30	1-30	3,388,597
Pizza On the Hill	0-30	1-30	454,640
Northwoods/Administration/MIS	0-30	1-30	5,203,219
Forestry	0-30	1-30	987,296
General & building maintenance	0-30	1-30	3,670,602
Trails	0-30	1-30	1,370,986
Vehicle maintenance	0-30	1-30	<u>1,590,143</u>
Total			<u>\$ 44,924,673</u>