

THE TAHOE SEASONS RESORT
TIME INTERVAL OWNERS ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2010

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

To the Owners
The Tahoe Seasons Resort Time Interval Owners Association

We have audited the accompanying balance sheet of The Tahoe Seasons Resort Time Interval Owners Association as of December 31, 2010, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year 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.

A study of the Association's replacement funding program indicates that the Association is underfunded. Accordingly, it may be necessary to increase assessments, pass special assessment(s), or delay repair or replacement obligations until sufficient funds are available.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The Tahoe Seasons Resort Time Interval Owners Association as of December 31, 2010, 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.

Schonwit & Associates

SCHONWIT & ASSOCIATES

February 3, 2011

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

BALANCE SHEET
DECEMBER 31, 2010

ASSETS

	Operating Fund	Replacement Fund	Combined
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents (Note 2)	\$ 2,972,517	\$ 1,413,227	\$ 4,385,744
Investments (Note 3)	302,000	500,000	802,000
Member assessments receivable (Note 2)	2,002,858	387,951	2,390,809
Other receivables	39,410	-	39,410
Accrued interest receivable	252	1,047	1,299
Prepaid expenses and other	261,240	-	261,240
Property and equipment, less accumulated depreciation of \$375,522	225,860	-	225,860
Other receivable-commercial entity (Note 5)	66,635	-	66,635
Due from/(to) other funds	<u>(282,403)</u>	<u>282,403</u>	<u>-</u>
 Total assets	 <u>\$ 5,588,369</u>	 <u>\$ 2,584,628</u>	 <u>\$ 8,172,997</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 144,978	\$ -	\$ 144,978
Accrued expenses & other liabilities	193,240	-	193,240
Deferred assessments	<u>4,533,345</u>	<u>839,940</u>	<u>5,373,285</u>
 Total liabilities	 4,871,563	 839,940	 5,711,503
 Fund balances	 <u>716,806</u>	 <u>1,744,688</u>	 <u>2,461,494</u>
 Total liabilities and fund balances	 <u>\$ 5,588,369</u>	 <u>\$ 2,584,628</u>	 <u>\$ 8,172,997</u>

See independent auditor's report and accompanying notes to financial statements

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Operating Fund	Replacement Fund	Combined
Revenues:			
Member assessments	\$ 5,459,535	\$ 1,064,298	\$ 6,523,833
Rooms and other	443,021	-	443,021
Sale of Inventory (Note 11)	-	130,400	130,400
Interest	970	5,867	6,837
	<u>5,903,526</u>	<u>1,200,565</u>	<u>7,104,091</u>
 Total revenues			
Expenses:			
Payroll and payroll related	2,426,868	-	2,426,868
Operating costs	1,207,052	-	1,207,052
Administrative and general	1,195,749	-	1,195,749
Income taxes	352	2,126	2,478
Bad debt expense-net of recoveries	631,534	105,816	737,350
Renovations	-	577,752	577,752
Commercial subsidy (Note 5)	81,990	-	81,990
	<u>5,543,545</u>	<u>685,694</u>	<u>6,229,239</u>
 Total expenses			
Excess of revenues over expenses before depreciation	359,981	514,871	874,852
Depreciation	84,905	-	84,905
Excess of revenues over expenses	<u>275,076</u>	<u>514,871</u>	<u>789,947</u>
Fund balance, beginning of year	642,282	1,029,265	1,671,547
Fund transfer	(200,552)	200,552	-
Fund balance, end of year	<u>\$ 716,806</u>	<u>\$ 1,744,688</u>	<u>\$ 2,461,494</u>

See independent auditor's report and accompanying notes to financial statements

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Operating <u>Fund</u>	Replacement <u>Fund</u>	<u>Combined</u>
Excess of revenues over expenses	\$ 275,076	\$ 514,871	\$ 789,947
Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities:			
Depreciation	84,905	-	84,905
Member assessments receivable	(255,215)	(39,349)	(294,564)
Other receivables	13,963	-	13,963
Accrued interest receivable	(252)	306	54
Prepaid expenses	(32,716)	-	(32,716)
Other receivable-commercial entity	12,496	-	12,496
Accounts payable	(29,298)	-	(29,298)
Deferred assessments	204,800	(30,750)	174,050
Accrued expenses	50,040	-	50,040
Net cash provided by operating activities	<u>323,799</u>	<u>445,078</u>	<u>768,877</u>
Cash provided/(used) by investing activities:			
Acquisition of certificates of deposit	(302,000)	(200,000)	(502,000)
Maturities of certificates of deposit	-	300,000	300,000
Property and equipment additions	(49,448)	-	(49,448)
Net cash flows from investing activities	<u>(351,448)</u>	<u>100,000</u>	<u>(251,448)</u>
Cash provided/(used) by financing activities:			
Change in due from/(to) other funds	322,782	(322,782)	-
Interfund transfers	(200,552)	200,552	-
Net cash flows from financing activities	<u>122,230</u>	<u>(122,230)</u>	<u>-</u>
Net increase in cash	94,581	422,848	517,429
Cash at beginning of year	2,877,936	990,379	3,868,315
Cash at end of year	<u>\$ 2,972,517</u>	<u>\$ 1,413,227</u>	<u>\$ 4,385,744</u>

See independent auditor's report and accompanying notes to financial statements

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

Note 1: ASSOCIATION AND MEMBERSHIP

The Tahoe Seasons Resort Time Interval Owners Association (the "Association") was incorporated on August 29, 1983 as a California non-profit mutual benefit corporation with the specific and primary purpose of promoting the interests and welfare of the owners of timeshare intervals situated in the project known as Tahoe Seasons Resort. The Association, which is located in the city of South Lake Tahoe, consists of 8,007 Class A memberships, each of which is entitled to one vote.

In accordance with the Declaration of Covenants, Conditions, and Restrictions, each timeshare interval owner is subject to basic, special, and personal charge assessments by the Association.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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 and disclosure of contingent 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.

Fund Accounting

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes.

Disbursements from the operating fund are generally at the discretion of the Board of Directors and property manager pursuant to the approved operating budget. Disbursements from the replacement fund are only at the discretion of the Board of Directors and generally may be made only for designated major repairs and replacements as discussed further under Replacement Fund and Fund Transfers.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assessments, Assessments Receivable, and Deferred Assessments

For the year ended December 31, 2010, each timeshare interval owner was assessed \$755, \$969 or \$1,135 (depending on unit type), inclusive of the replacement fund assessment discussed below. The 2011 annual assessment of \$784, \$1,004 or \$1,177, inclusive of the replacement fund assessment, was billed in October 2010 and is included in deferred assessments until earned.

Allowance for Doubtful Accounts

It is the Association's policy to write off past due balances at the end of the year for assessments billed in the previous year. During 2010, the Association has written off \$826,931 of 2010 assessments billed in 2009 and has received \$89,581 representing recoveries of bad debts previously written off. Accordingly, assessments receivable at December 31, 2010 consist principally of advance assessment billings for the year ending December 31, 2011, and an allowance for doubtful accounts has not been established as of December 31, 2010.

Capitalization Policy and Depreciation

The Association's policy is to record significant personal property assets at cost. The property is depreciated over its estimated useful life using the straight-line method over a period of 2 to 10 years.

Significant capital assets not directly associated with the units, referred to as personal property assets, are capitalized and depreciated over their estimated useful life using the straight line method of depreciation. During the year-ended December 31, 2009, the Association capitalized \$49,448 of personal property additions.

Subsequent Events:

Subsequent events have been evaluated through February 3, 2011 which is the date the financial statements were available to be issued.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

Replacement Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

During 2010, the Association's replacement funds were subject to a study to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 2%, net of taxes, on amounts funded for future major repairs and replacements. Accordingly, the study recommended a replacement funding contribution of \$1,058,220 for the 2011 fiscal year. The 2011 budget includes a provision for replacement funding of \$1,090,686, subject to delinquency adjustments. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures and investment income 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 all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the governing documents, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Fund transfers

As replacement fund cash is disbursed for Board approved capital expenditures, the assets are capitalized in the operating fund and the related replacement fund balances are transferred to the operating fund in accordance with industry practice.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

Note 3: INVESTMENTS IN HELD TO MATURITY CERTIFICATES OF DEPOSIT

The certificates of deposit, by contract maturities, as of December 31, 2010 are as follows:

	OPERATING FUND	REPLACEMENT FUND
Certificates of deposit, due in 2011	\$302,000	\$500,000

Note 4: TIMESHARE INTERVALS HELD FOR SALE

As of December 31, 2010, the Association owns 226 timeshare intervals that are held for sale. A value has not been assigned to these intervals.

Note 5: COMMERCIAL SUBSIDY AND RELATED PARTY TRANSACTIONS

The Pub at Tahoe Seasons, a California corporation formed to operate the food, beverage, gift shop, and ski shop departments located within the Association's facilities, is a company related to the Association by common management and Board of Directors. The Association subsidizes the operating deficits of the Pub at Tahoe Seasons. The subsidy amounted to \$82,007 for the year ended December 31, 2010 resulting in a receivable balance of \$66,635 at December 31, 2010. The subsidy agreement is subject to termination at the Association's discretion.

Note 6: MANAGEMENT AGREEMENT

The Association is operated under a management agreement with a professional property management company, Vacation Resorts International, a California corporation. Compensation for management services is based on the Association's approved annual operating budget. The Association's management budget is within guidelines established by the Department of Real Estate.

Note 7: PROVISION FOR INCOME TAXES

In 2010, the Association elected to file as a timeshare association in accordance with Internal Revenue Code section 528. Under that section, the Association is able to exclude from taxation exempt function income, which generally consists of revenue from assessments to members. The Association's investment income (interest) and other nonexempt income were subject to tax. For California state tax purposes income is taxed similarly, subject to a minimum tax of \$800. For 2010, the Federal and California state tax totaled \$2,478.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

Note 7: PROVISION FOR INCOME TAXES (continued)

The Association utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are provided based on the difference between the financial statements and tax basis of assets and liabilities measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Because there is no material difference between the financial accounting and tax basis of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

The Association has adopted accounting standards for the accounting for uncertainty in income taxes. These standards provide guidance for the accounting and disclosure about uncertain tax positions taken by the Association. Management believes that all of the positions taken by the Association in its federal and state income tax returns are more likely than not to be sustained upon examination. The Association's tax returns are subject to examination by the Internal Revenue Service and the California Franchise Tax Board, generally for three years and four years, respectively after they are filed.

Note 8: LEASE OBLIGATIONS

The Association maintains operating leases for some of its office equipment. Future minimum lease payments for these leases are as follows:

2011	\$ 7,256
2012	7,256
2013	7,256
2014	4,668
2015 and thereafter	<u>1,562</u>
Total future minimum lease obligations	\$27,998

Note 9: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

There were no cash payments for income taxes for 2010. No interest was paid and there were no non-cash investing or financing transactions in 2010.

Note 10: CONCENTRATION OF RISK

Monarch Grand Vacations Owners' Association owns 1,576 timeshare intervals which are subject to a significant concentration of credit risk. Although normal collection procedures are

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2010

Note 10: CONCENTRATION OF RISK (continued)

available to the Association, failure to collect assessments from Monarch Grand Vacations Owners' Association could severely affect the Association's operations - specifically affecting the Association's cash flows and its ability to fund on-going maintenance obligations.

Note 11: SALE OF INVENTORY

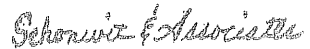
In July 2008, the Association entered into an agreement for the sale of 417 intervals to Pacific Monarch Resorts, Inc. (PMR) at a price of \$2,050 per Interval. In April 2009, the payment terms were amended in a newly executed promissory note in the amount of \$854,850 payable in monthly payments of \$20,000 until paid in full. For and in consideration of monies and services expended by the management company to obtain title to Intervals in the Association's name, the Association agreed to pay to the management company one-half of payments received from PMR and the management company agreed to guarantee payment of the remaining one-half to the Association. Due to the uncertainty of the timing of such collections, the Association has elected to record the sale when and as payments are received. PMR was current with payment obligations as of December 31, 2010.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audit of the basic financial statements of The Tahoe Seasons Resort Time Interval Owners Association for the year ended December 31, 2010 appears on page 3. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole.

The supplementary information on future major repairs and replacements that accompanies the basic financial statements (page 14) is presented for purposes of additional analysis. This information is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

The supplementary information of actual and budgeted revenues and expenses of the operating fund (page 15) is not a required part of the basic financial statements and has been presented for the purpose of additional analysis. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.



SCHONWIT & ASSOCIATES

February 3, 2011

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION
 ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2010
 (Unaudited)

An independent reserve study was updated in August 2010, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates are based upon representations by the Board of Directors, Vacation Resorts International, and the experience and knowledge of the independent reserve analyst.

The following table was based on the study and presents significant information about the components of common property.

<u>Common Area Component</u>	<u>Estimated Remaining Useful Lives</u>	<u>Estimated Current Replacement Cost</u>	<u>2011 Recommended Funding Requirement</u>	<u>Study's Recommended Replacement Fund Balance At 12/31/10</u>
Total	0-21 years	\$9,577,645	* \$1,058,220	\$6,686,403
				Actual replacement fund balance at 12/31/10
				\$1,744,688

*The 2011 recommended funding requirement is based on the replacement study. A replacement contribution of \$1,090,686, subject to delinquency adjustments, was included in the 2011 budget.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

**SUPPLEMENTARY INFORMATION OF ACTUAL AND
BUDGETED REVENUES AND EXPENSES OF THE OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Actual	Budget	Variance Actual To Budget
Revenues:			
Assessments	\$ 5,459,535	\$ 5,586,336	\$ (126,801)
Room revenue and other	443,021	382,800	60,221
Interest	970	1,500	(530)
Total	<u>5,903,526</u>	<u>5,970,636</u>	<u>(67,110)</u>
Operating Costs:			
Payroll	1,778,470	1,901,923	123,453
Payroll taxes and benefits	648,398	787,439	139,041
Utilities	383,752	427,798	44,046
Reservation center	162,946	162,946	-
Shuttle service	13,253	15,600	2,347
Custodial supplies/room amenities	89,073	93,000	3,927
Laundry cleaning/uniform/linen	235,091	270,069	34,978
Social activities	16,269	17,000	731
Repairs/maintenance	202,155	192,671	(9,484)
Damage and loss	2,131	4,600	2,469
Computer service	102,382	102,382	-
Total operating costs	<u>3,633,920</u>	<u>3,975,428</u>	<u>341,508</u>
Administrative and General:			
Assessment billing/collection	42,477	44,010	1,533
HOA mailings/newsletters	30,265	35,300	5,035
Office expenses/postage	71,513	71,000	(513)
Credit card & bank fees	119,994	104,600	(15,394)
Legal/accounting/replacement study	221,410	220,780	(630)
Director/administrative expenses	17,792	10,100	(7,692)
Management fees	300,000	300,000	-
Corporation tax	352	9,000	8,648
Business license/fees	7,995	7,640	(355)
Insurance	372,168	388,589	16,421
Property taxes	12,135	16,728	4,593
Bad debt expense	631,534	663,520	31,986
Restaurant contingency	81,990	123,941	41,951
Total Administrative and General Expenses	<u>1,909,625</u>	<u>1,995,208</u>	<u>85,583</u>
Excess of revenues over expenses before depreciation	359,981	-	359,981
Depreciation	84,905	-	84,905
Excess of revenues over expenses	<u>275,076</u>	<u>-</u>	<u>275,076</u>

*Favorable/(Unfavorable)

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