

THE TAHOE SEASONS RESORT
TIME INTERVAL OWNERS ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 2008

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, 2008, 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 recent study of the Association's replacement funding program indicates that the Association is significantly 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, 2008, 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

March 31, 2009

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

BALANCE SHEET
DECEMBER 31, 2008

ASSETS

| | Operating Fund | Replacement Fund | Combined |
|---|-------------------|---------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents (Note 2) | \$ 2,229,296 | \$ 1,016,159 | \$ 3,245,455 |
| Investments (Note 3) | - | 95,000 | 95,000 |
| Accrued interest receivable | - | 3,105 | 3,105 |
| Member assessments receivable (Note 2) | 2,892,533 | 590,104 | 3,482,637 |
| Other receivables | 69,997 | - | 69,997 |
| Prepaid expenses and other | 302,036 | - | 302,036 |
| Property and equipment, less accumulated depreciation of \$355,764 | 322,407 | - | 322,407 |
| Other receivable-commercial entity (Note 5) | 77,024 | - | 77,024 |
| Due from/(to) other funds | 148,255 | (148,255) | - |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | \$ 6,041,548 | \$ 1,556,113 | \$ 7,597,661 |

LIABILITIES AND FUND BALANCES

| | | | |
|--------------------------------------|-------------------|-------------------|-------------------|
| Accounts payable | \$ 130,635 | \$ - | \$ 130,635 |
| Accrued expenses & other liabilities | 199,082 | 284,173 | 483,255 |
| Deferred assessments | 5,415,634 | 1,092,487 | 6,508,121 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | 5,745,351 | 1,376,660 | 7,122,011 |
| Fund balances | 296,197 | 179,453 | 475,650 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | \$ 6,041,548 | \$ 1,556,113 | \$ 7,597,661 |

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, 2008**

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Combined</u> |
|---|---------------------------|-----------------------------|--------------------|
| Revenues: | | | |
| Member assessments | \$ 5,119,435 | \$ 716,812 | \$ 5,836,247 |
| Rooms and other | 524,716 | - | 524,716 |
| Interest | 22,858 | 29,622 | 52,480 |
| | <u>5,667,009</u> | <u>746,434</u> | <u>6,413,443</u> |
| Expenses: | | | |
| Payroll and payroll related | 2,077,177 | 28,897 | 2,106,074 |
| Operating costs | 1,621,919 | - | 1,621,919 |
| Administrative and general | 1,063,114 | - | 1,063,114 |
| Income taxes | 8,113 | 10,514 | 18,627 |
| Bad debt expense-net of recoveries | 332,591 | 31,946 | 364,537 |
| Renovations | - | 3,108,403 | 3,108,403 |
| Carpet and upholstery | - | 37,486 | 37,486 |
| Lighting | - | 26,263 | 26,263 |
| Commercial subsidy (Note 5) | 162,579 | - | 162,579 |
| | <u>5,265,493</u> | <u>3,243,509</u> | <u>8,509,002</u> |
| Excess of revenues over/(under) expenses before depreciation | 401,516 | (2,497,075) | (2,095,559) |
| Depreciation | 80,077 | - | 80,077 |
| Excess of revenues over/(under) expenses | <u>321,439</u> | <u>(2,497,075)</u> | <u>(2,175,636)</u> |
| Fund balance, beginning of year | (182,178) | 2,833,464 | 2,651,286 |
| Fund transfer | 156,936 | (156,936) | - |
| Fund balance, end of year | <u>\$ 296,197</u> | <u>\$ 179,453</u> | <u>\$ 475,650</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, 2008**

| | Operating Fund | Replacement Fund | Combined |
|--|---------------------|---------------------|---------------------|
| Excess of revenues over/(under) expenses | \$ 321,439 | \$ (2,497,075) | \$ (2,175,636) |
| Adjustments to reconcile excess of revenues over/(under) expenses to net cash provided/(used) by operating activities: | | | |
| Depreciation | 80,077 | - | 80,077 |
| Member assessments receivable | (172,653) | (204,072) | (376,725) |
| Other receivables | (8,184) | - | (8,184) |
| Accrued interest receivable | - | 155 | 155 |
| Prepaid expenses | (55,353) | - | (55,353) |
| Upgrade in progress | - | 1,037,202 | 1,037,202 |
| Other receivable-commercial entity | 6,574 | - | 6,574 |
| Accounts payable | (190,945) | - | (190,945) |
| Deferred assessments | 282,146 | 373,451 | 655,597 |
| Accrued expenses | 15,930 | 284,173 | 300,103 |
| Net cash provided/(used) by operating activities | <u>279,031</u> | <u>(1,006,166)</u> | <u>(727,135)</u> |
| Cash provided/(used) by investing activities: | | | |
| Acquisition of certificates of deposit | - | 199,000 | 199,000 |
| Property and equipment additions | (156,936) | - | (156,936) |
| Net cash flows from investing activities | <u>(156,936)</u> | <u>199,000</u> | <u>42,064</u> |
| Cash provided/(used) by financing activities: | | | |
| Change in due from/(to) other funds | (108,453) | 108,453 | - |
| Interfund transfers | 156,936 | (156,936) | - |
| Net cash flows from financing activities | <u>48,483</u> | <u>(48,483)</u> | <u>-</u> |
| Net increase/(decrease) in cash | 170,578 | (855,649) | (685,071) |
| Cash at beginning of year | 2,058,718 | 1,871,808 | 3,930,526 |
| Cash at end of year | <u>\$ 2,229,296</u> | <u>\$ 1,016,159</u> | <u>\$ 3,245,455</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, 2008

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, 2008

Note 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Assessments, Assessments Receivable, and Deferred Assessments

For the year ended December 31, 2008, each timeshare interval owner was assessed \$688, \$878 or \$1,073 (depending on unit type), inclusive of the replacement fund assessment discussed below. The 2009 annual assessment of \$729, \$936 or \$1,097, inclusive of the replacement fund assessment, was billed in October 2008 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 2008, the Association has written off \$386,095 of 2008 assessments billed in 2007 and has received \$41,452 representing recoveries of bad debts previously written off. Accordingly, assessments receivable at December 31, 2008 consist principally of advance assessment billings for the year ending December 31, 2009, and an allowance for doubtful accounts has not been established as of December 31, 2008.

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 39 years.

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 2008, 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 replacement funding of \$867,551 for the 2009 fiscal year. The 2009 budget includes a provision for replacement funding of \$1,085,637, subject to delinquency adjustments. The table included in the unaudited Supplementary Information on Future Major Repairs and Replacements is based on the study.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. 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.

Note 3: INVESTMENTS IN HELD TO MATURITY CERTIFICATES OF DEPOSIT

The certificates of deposit, by contract maturities, as of December 31, 2008 are as follows:

| | <u>REPLACEMENT FUND</u> |
|--------------------------------------|-----------------------------|
| Certificates of deposit, due in 2009 | \$95,000 |

Note 4: TIMESHARE INTERVALS HELD FOR SALE

As of December 31, 2008, the Association owns 145 timeshare intervals that are held for sale. A value has not been assigned to these intervals.

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

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 \$162,328 for the year ended December 31, 2008 resulting in a receivable balance of \$77,024 at December 31, 2008. 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 2008, 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 2008, the federal and California state tax totaled \$18,627.

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:

| | |
|--|--------------|
| 2009 | \$ 8,520 |
| 2010 | <u>4,260</u> |
| Total future minimum lease obligations | \$12,780 |

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008

Note 9: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for income taxes amounted to \$41,600 for 2008. There was no interest paid and there were no non-cash investing or financing transactions in 2008.

Note 10: CONCENTRATION OF RISK

Monarch Grand Vacations Owners' Association owns 1,577 timeshare intervals which are subject to a significant concentration of credit risk. Although normal collection procedures are 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: OPERATING FUND BALANCE (DEFICIT)

In accordance with generally accepted accounting principles, certain Replacement fund expenditures must be capitalized and transferred to the Operating fund. Because of this transfer, along with the corresponding affects of recording depreciation expense, it is often difficult to determine whether the operating fund is in a deficit or surplus position at the end of the year. The information below summarizes the Operating fund balance (deficit) from year to year.

| | |
|--|--------------------|
| Operating fund balance (deficit) at December 31, 2007, net of assets | \$(427,726) |
| 2008 operating surplus | 321,439 |
| Add back depreciation expense (on capitalized Replacements) | <u>80,077</u> |
| Operating fund balance (deficit) at December 31, 2008, net of assets | <u>\$ (26,210)</u> |

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, 2008 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 13) 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 14) 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
SCHONWIT & ASSOCIATES

March 31, 2009

THE TAHOE SEASONS RESORT TIME INTERVAL OWNERS ASSOCIATION

SUPPLEMENTARY INFORMATION
ON FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2008
(Unaudited)

An independent reserve study was conducted in 2008, 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>2009 Recommended Funding Requirement</u> | <u>Study's Recommended Replacement Fund Balance At 12/31/08</u> |
|---|---|---|---|---|
| Total | 0-21 years | <u>\$8,558,122</u> | <u>* \$867,551</u> | <u>** \$4,316,057</u> |
| Actual replacement fund balance at 12/31/08 | | | | \$179,453 |

*The 2009 recommended funding requirement is based on the replacement study. A replacement contribution of \$1,085,637, subject to delinquency adjustments, was included in the 2009 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, 2008**

| | <u>Actual</u> | <u>Budget</u> | Variance Actual <u>To Budget</u> |
|---|------------------|------------------|--|
| Revenues: | | | |
| Assessments | \$ 5,119,435 | \$ 5,379,268 | \$ (259,833) |
| Room revenue and other | 524,716 | 692,360 | (167,644) |
| Interest | <u>22,858</u> | <u>55,000</u> | <u>(32,142)</u> |
| Total | <u>5,667,009</u> | <u>6,126,628</u> | <u>(459,619)</u> |
| Operating Costs: | | | |
| Payroll | 1,504,680 | 1,331,095 | 173,585 |
| Payroll taxes and benefits | 572,497 | 668,041 | (95,544) |
| Utilities | 381,752 | 390,502 | (8,750) |
| Reservation center | 158,200 | 158,200 | - |
| Shuttle service | 17,388 | 15,600 | 1,788 |
| Custodial supplies/room amenities | 44,295 | 8,600 | 35,695 |
| Laundry cleaning/uniform/linen | 180,308 | 175,000 | 5,308 |
| Social activities | 15,036 | 17,000 | (1,964) |
| Repairs/maintenance | 188,384 | 164,778 | 23,606 |
| Housekeeping services | 559,945 | 1,238,060 | (678,115) |
| Damage and loss | 2,211 | 4,600 | (2,389) |
| Computer service | <u>74,400</u> | <u>74,400</u> | <u>-</u> |
| Total operating costs | <u>3,699,096</u> | <u>4,245,876</u> | <u>(546,780)</u> |
| Administrative and General: | | | |
| Assessment billing/collection | 39,934 | 41,046 | (1,112) |
| HOA mailings/newsletters | 35,074 | 29,400 | 5,674 |
| Office expenses/postage | 74,570 | 77,500 | (2,930) |
| Credit card & bank fees | 105,094 | 58,200 | 46,894 |
| Legal/audit/replacement study | 53,265 | 58,500 | (5,235) |
| Director/administrative expenses | 34,904 | 34,100 | 804 |
| Management fees | 300,000 | 300,000 | - |
| Corporation tax | 8,113 | 19,800 | (11,687) |
| Business license/fees | 9,373 | 7,000 | 2,373 |
| Insurance | 359,340 | 361,099 | (1,759) |
| Property taxes | 15,719 | 11,370 | 4,349 |
| Cost of inventory | 35,841 | - | 35,841 |
| Bad debt expense | 332,591 | 530,237 | (197,646) |
| Operating contingency | - | 142,576 | (142,576) |
| Restaurant contingency | <u>162,579</u> | <u>209,924</u> | <u>(47,345)</u> |
| Total Administrative and General Expenses | <u>1,566,397</u> | <u>1,880,752</u> | <u>(314,355)</u> |
| Excess of revenues over expenses | | | |
| before depreciation | 401,516 | - | 401,516 |
| Depreciation | <u>80,077</u> | <u>-</u> | <u>80,077</u> |
| Excess of revenues over expenses | <u>321,439</u> | <u>-</u> | <u>321,439</u> |

**THE PUB AT TAHOE SEASONS
FINANCIAL STATEMENTS
DECEMBER 31, 2008**

THE PUB AT TAHOE SEASONS

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INDEPENDENT AUDITORS' REPORT

To the Owners
The Pub at Tahoe Seasons

We have audited the accompanying balance sheet of The Pub at Tahoe Seasons, as of December 31, 2008, and the related statements of revenues and expenses, 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.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the financial position of The Pub at Tahoe Seasons as of December 31, 2008, 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

March 30, 2009

THE PUB AT TAHOE SEASONS

BALANCE SHEET
AS OF DECEMBER 31, 2008

ASSETS

| | |
|---|------------------|
| Cash | \$ 26,606 |
| Inventories | 29,392 |
| Ski rental equipment, at cost (net of \$40,651 accumulated depreciation) | 17,030 |
| Prepaid expenses | 3,758 |
| Liquor license | <u>21,090</u> |
| Total assets | <u>\$ 97,876</u> |

LIABILITIES

| | |
|-------------------------------|------------------|
| Accounts payable | \$ 11,429 |
| Sales tax payable | 1,340 |
| Accrued expenses | 8,083 |
| Due to related party (Note 3) | <u>77,024</u> |
| Total liabilities | <u>\$ 97,876</u> |

STOCKHOLDERS' EQUITY

| | |
|---|------------------|
| Common stock, no par value: 1,000 shares authorized: 3 shares issued and outstanding | - |
| Retained earnings | <u>-</u> |
| Total liabilities and stockholders' equity | <u>\$ 97,876</u> |

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

THE PUB AT TAHOE SEASONS

STATEMENT OF REVENUES AND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2008

| | |
|---|------------------|
| Revenue | \$409,246 |
| Cost of sales | <u>(240,327)</u> |
| Gross Profit | \$168,919 |
| Operating Expenses | |
| Salaries | 116,663 |
| Payroll taxes and benefits | 33,825 |
| Utilities | 35,037 |
| Business licenses | 1,943 |
| Insurance | 37,619 |
| Corporate tax | 800 |
| Depreciation | 11,835 |
| Telephone | 262 |
| Paper supplies | 2,749 |
| Utensils | 3,914 |
| Credit card discounts | 4,918 |
| Laundry/linen/uniforms | 3,277 |
| Cleaning supplies | 765 |
| Repairs & maintenance | 6,184 |
| Advertising/promotion | 3,544 |
| Damage/loss | 2,600 |
| Office supplies | 5,599 |
| Outside services | 9,000 |
| Payroll service | 5,731 |
| Accounting | <u>20,101</u> |
| Total expenses | 306,366 |
| Loss before subsidy | (137,447) |
| Sub-lease subsidy - Fat City (Note 5) | (25,132) |
| Commercial subsidy - timeshare association (Note 3) | <u>162,579</u> |
| Net income | <u>\$ -</u> |

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

THE PUB AT TAHOE SEASONS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

| | |
|--|-----------|
| Net income | \$ - |
| Adjustments to reconcile above to net cash provided/(used) by operating activities | |
| Depreciation | 11,835 |
| Accounts receivable | 4,327 |
| Inventories | 35,153 |
| Deposits | 3,500 |
| Prepaid expenses | 7,973 |
| Accounts payable | (41,272) |
| Sales tax payable | 1,340 |
| Accrued expenses | (7,722) |
| Due to related party | (6,574) |
| Net cash provided by operating activities | 8,560 |
| Cash flow from financing activities: | |
| Disposition/scrap of ski equipment | (6,921) |
| Net cash flows from investing activities | (6,921) |
| Net increase in cash | 1,639 |
| Cash at beginning of year | 24,967 |
| Cash at end of year | \$ 26,606 |

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

THE PUB AT TAHOE SEASONS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

Note 1: ORGANIZATION

The Pub at Tahoe Seasons (the "Company") was formed as a California corporation on February 10, 1992 to operate the food, beverage, gift shop, and ski shop departments located within the premises of The Tahoe Seasons Resort Time Interval Owners Association (the "Association"). The Company leases the facilities for a monthly rental of \$1 under a month-to month lease agreement.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

(b) Inventory – Inventories are stated at the lower of the cost (first-in, first-out method) or market value.

(c) Furniture, Fixtures, and Equipment – Furniture, fixtures, and equipment are stated at cost. Depreciation is calculated using the straight-line method over an estimated useful life of 3 years.

Note 3: COMMERCIAL SUBSIDY AND RELATED PARTY

The Association has agreed, subject to certain conditions, to subsidize the Company's operating deficits. This subsidy is subject to termination at the Association's discretion. The amounts due to the Association at December 31, 2008 represent the excess of amounts advanced over the subsidy requirements.

The Company is related to the Association by common management and Board of Directors.

Note 4: INCOME TAXES

Due to the subsidy arrangement discussed in Note 3, the Company has incurred no income taxes other than the minimum corporate franchise fee required by California. Similarly, there are no net operating loss carry forwards available as of December 31, 2008.

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Note 5: SUB-LEASE SUBSIDY

In 2008 the Company negotiated a sub-lease of its restaurant facility with a local vendor, Fat City. As an incentive, the sub-lease required the Company to subsidize Fat City for monthly operating deficits which totaled \$25,132 during the year.