



Reserve Funds at Work

Our wonderful resort continues to age each year and it is our responsibility to stay ahead of potential issues through our preventive maintenance program.

This year we are working on a very important reserve project. All the valves in the bathrooms are being replaced to ensure that you will always have consistent water pressure and water temperature!

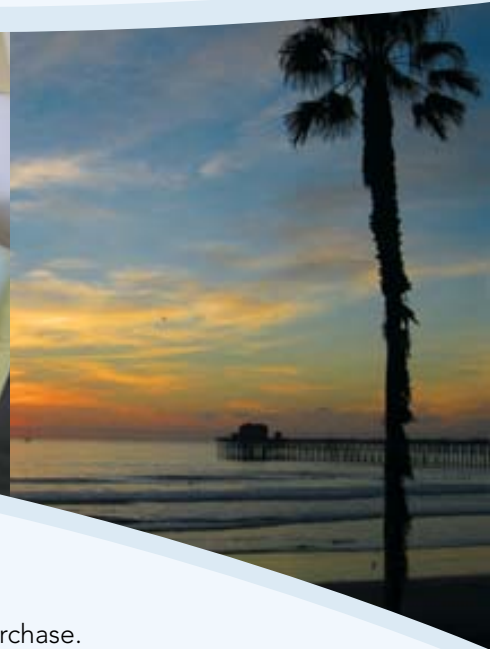
Surveillance cameras were recently installed at the Front Desk and parking garage for added security. The cameras will aid the Front Desk staff in monitoring the activity at



the resort from different locations at once. From an aesthetic standpoint, the cameras are small and inconspicuous so they preserve the atmosphere of the property. All room locks will soon be replaced with new entry systems.

These entry systems will also be at the doors going into the property. It is important to secure all entries while allowing our Owners and Guests 24-hour accessibility with their room key.

The living room chairs with stain resistant fabric have been replaced in all units. The feedback on their comfort has been extremely positive.



Weeks Available To You, Family or Friends!

The Homeowners Association has a limited number of foreclosure weeks available for purchase. These weeks are extremely well priced and are offered with several valuable incentives that add tremendous value to the purchase. If you have ever thought of adding to your vacation portfolio, this is your opportunity! The inventory is available to you, your family or friends, however the initial request to purchase should come from you. We'll take it from there.

As an owner, you will be receiving a call inviting you to take advantage of this rare opportunity. If you are interested, do not wait to receive your courtesy call! **You can call today at 800-940-0068.**

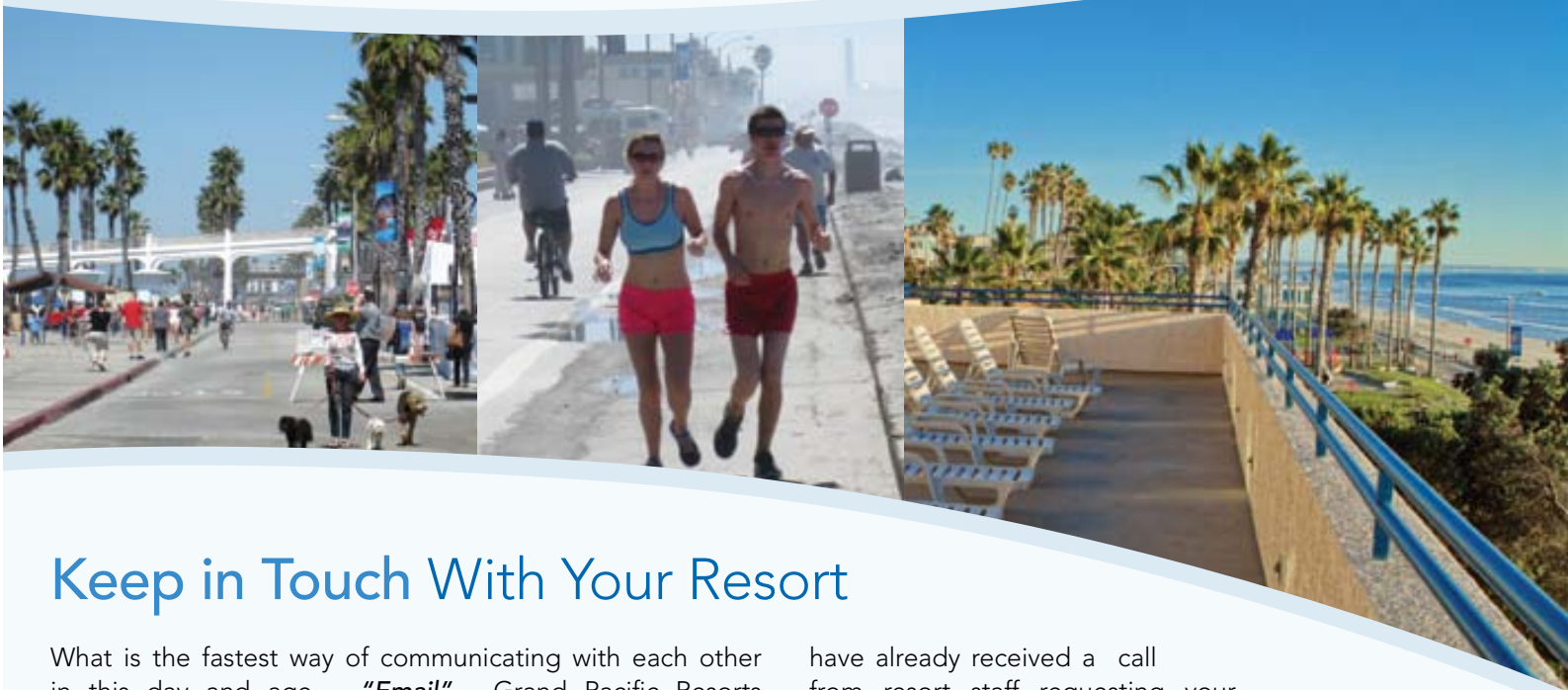
RCI Silver Crown Resort of Distinction

The Southern California Beach Club is very proud to be recognized by RCI as a Silver Crown Resort. Each resort receiving this designation has met specific quality and service standards. Selection is based on ratings from RCI Subscribing Member Comment Cards submitted after their exchanges.

Resorts receiving the RCI Silver Crown Resort® award have demonstrated a consistent, impressive record of satisfying RCI guests and have met requirements in each of the five categories of evaluation. Performance data in each of these categories is compiled over a 12-month period for each affiliated resort to determine eligibility for this award. The five categories of evaluation are: Check-In and Check-Out; Hospitality; Resort Maintenance; Unit Maintenance; and Unit Housekeeping.



The next time you are traveling back to The Beach Club on an RCI Exchange, remember to complete your RCI Comment Card with the highest score of 5. You will help ensure that we continue to be recognized as a Silver Crown Resort!



Keep in Touch With Your Resort

What is the fastest way of communicating with each other in this day and age – **“Email”**. Grand Pacific Resorts Management needs your email address; in fact, you may

have already received a call from resort staff requesting your information. We would love to be able to contact you instantly with exciting news about your resort, our yearly Owner Survey, special offers and newsletters.

Not only is email an excellent way for you to stay in touch with the resort staff regarding your reservations and with questions about availability, it also saves you and the Association money in telephone and postage expenses.

Please take the time to call **760-722-6666** or simply email socalifbeachclub@gpresorts.com to let us know your current email address.



Board Meeting Highlights

February 11, 2011

President Marianne Caudill called the meeting to order at 6:30pm. Board members in attendance were Marianne Caudill, Andrea Dangerfield, Eric Siegel, Don Taylor and David Fehlman. Representing Management were Doreen Bechard, Regional Director; Mary Dieckmann, Director of Owner Loyalty; Julie DaRonco, Resort Manager and Rick Dahlem, Maintenance Manager. Several Owners were also present. Hayley Hughes took the meeting minutes.

The following actions took place:

- The Board approved the Meeting Minutes from the November 5, 2010 Board of Directors' Meeting.
- The Board approved the revised Sales and Marketing agreement with Advanced Commercial Corporation.
- An overview of Front Desk Operations, Housekeeping, Maintenance, Landscaping, Activities and update on "Going Green" was presented.
- The Board approved reserve expenditures not to exceed \$64,471.46.
- Topics discussed during the Owner forum included tabletop replacements, beach equipment and the size of the refrigerators.
- The meeting adjourned at 7:02pm.

Note: If you wish to have a copy of the Minutes for your records, please send your request along with a (\$.63) stamped self-addressed envelope to Grand Pacific Resort Services, L.P., 5900 Pasteur Court, Suite 200, Carlsbad, CA 92008, Attn: Lois Sklar.

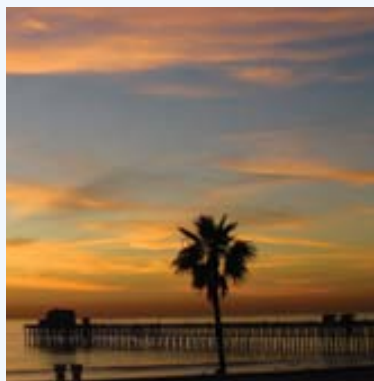
Confirmation of Meeting Dates

Saturday, August 27, 2011: 9:30 am, SCBC

Friday, November 11, 2011: 6:30 pm, SCBC

Friday, February 10, 2012: 6:30 pm, SCBC

Note: Owners are welcome to attend any regular Board meeting. Board meeting agendas are posted at the resort four days prior to the meeting. If you would like a copy of the final agenda for any Board meeting mailed to you, please contact your Resort Manager prior to the meeting. Since meeting times and location are subject to change, please contact your Resort Manager in advance to reconfirm the exact time and location.



Calendar of Local Events

*Event dates and times are subject to change.

SUNSET MARKET Ongoing – Thursdays

Certified vendors sell fresh produce, flowers, seafood, and natural food products. The market also includes many unique craft vendors, entertainment and a fun little children's area. 5pm - 9pm at the intersection of North Coast Highway and Pier View Way. 760-754-4512
www.mscoceanside.com

CROWN HEIGHTS STREET FAIR June 4, 2011

Street fair sponsored by the City of Oceanside. 11am-2pm on Division Street. 760-435-3335

FM 94.9 INDEPENDENCE JAM June 5, 2011

Annual all-ages concert event at the Pier Amphitheater. 619-291-9797

SAN DIEGO COUNTY FAIR June 10 - July 4, 2011

The annual county fair features outlandish foods, garden shows, livestock tents and a midway complete with carnival rides and concerts

held throughout the beautiful Del Mar Fairgrounds in Del Mar. Adults are \$13; \$7 for ages 62 and older; \$7 for ages 6-12 (free on Tuesdays); and ages 5 and younger are free.
www.sdfair.com

LA JOLLA FESTIVAL OF THE ARTS June 18 - 19, 2011

Juried art festival featuring over 190 artists displaying original work, as well as live entertainment, food court, book signings, celebrity chef demonstrations and street chalking exhibition.
www.lajollaartfestival.org

LEX ROX BEACH PARTY July 2, 2011

Family concert featuring teen performers. 3pm - 6pm at the Pier Amphitheater.

INDEPENDENCE DAY PARADE - OCEANSIDE July 2, 2011

Traditional 4th of July parade with approximately 100 entries. 10am - 12:30pm on the Coast Highway from Oceanside Boulevard to Civic Center Drive. 760-754-4512

(Continued on page 6)

Exchange Tips From Owner Services



As an Owner at Southern California Beach Club, one of your use options is to exchange your week with the exchange company of your choice such as RCI or GPX and access a wide variety of exciting vacation destinations!

If exchanging your week at Southern California Beach Club is part of your vacation plans, here are some quick, easy steps to get you started:

- Your ownership week at Southern California Beach Club is for a fixed week.
- This week is automatically reserved for you.
- You can bank your week 2 years to 14 days before the start date of your week.
- To receive the best value for your week you should deposit your week a minimum of 9 months before the start date.
- You can contact the exchange company of your choice to deposit your week either by phone or on line.

Don't forget that planning your vacation can be as much fun as getting there! Here are some general tips to think about:

- Focus on the vacation experience as well as the destination when exchanging. Think "what" before "where." With so many resorts in so many places and units and destinations not always available at all times, think about activities and experiences you would enjoy during your vacation.
- Take advantage of your vacation exchange representatives to assist you in finding the perfect destination.



- Advance planning pays off. Place your request as far as possible in advance of the dates you want to travel to maximize your chances of securing the vacation of your dreams.
- Be as flexible as possible when requesting travel dates and resort locations. Listing several options enhances your chance for a quick confirmation.
- Consider a trip in the off-season or visit a lesser known destination that offers a similar vacation experience.
- Remember that resorts may have more small units than large ones. If you are willing to accept a unit that accommodates the number of people traveling, regardless of the size of the unit you are relinquishing, you enhance your exchange opportunities.

For questions or help with your exchange, here is the contact information for our most popular exchange companies:

RCI: 800-743-3305 / www.rci.com

GPX: 866-325-6295 / www.gpxvacations.com

II: 800-282-8200 / www.intervalworld.com

And don't forget, if you have any questions regarding your ownership or the exchange process, your Grand Pacific Resorts Owner Services staff is always here to help at 888-477-6967.

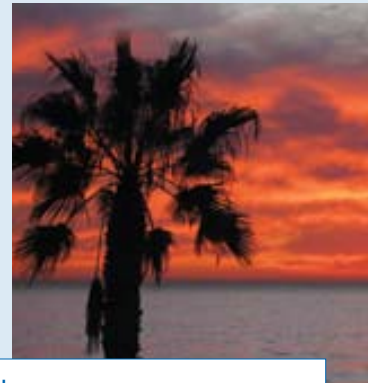


Vacation Ownership RCI Weeks 101 Class

Brought to you by Owner Services and RCI

Come and learn how to make the most of your ownership at your home resort! Topics covered in this class include but are not limited to:

- *Timeshare Terminology*
- *How to Utilize RCI*
- *Reservation Procedures*
- *How to Rent Your Week*
- *Using Your Week*
- *How to Stay at Other GPR Resorts*
- *Trading Power with RCI*



2011 Classes

June 18th, No Classes in July,
August 13th, September 17th, October 8th

All classes are on a Saturday and start at 10am.

These complimentary classes fill up quickly and reservations are required. Please call Owner Services at 888-477-6967 to reserve your attendance and verify date, place and times.



Have You Moved Recently?

Don't forget to notify us with your new address and contact information! Call Owner Services at 888-477-6967 or log on to www.grandpacificresorts.com/owners/address.aspx

To ensure that you receive your property tax bills on time, please call your local tax assessor's office directly to update any change in your mailing address.



Try Bonus Time... For Business Travel

Congratulations Ashley Yoder, Our Business Travel Ambassador and recipient of a Free 7 Night Vacation!

For Ashley Yoder, ResorTime.com's **Bonus Time Network**® Reservation Center has expanded her benefits of timeshare ownership well beyond luxury vacations.

Using the **Bonus Time Network** Reservation Center for all her business travel, Ashley has saved thousands of dollars staying in centrally located, amenity-rich timeshare properties. Who knew that timeshare rentals would be such an ideal and convenient way to eat in, sprawl out and unwind at the end of a long business day?

Ashley has been traveling on business so much she hasn't taken a real vacation in 10 years! Find us at **facebook.com/ResorTime** to share your favorite vacation idea for Ashley. If Ashley selects your vacation idea, you too will **WIN A FREE 7 NIGHT VACATION!**

32 Business Trips in 2010 Alone!

MEMBER: Ms. Ashley Yoder
LOCATED IN: Burbank, CA
OWNS AT: Grand Pacific Palisades
LOYAL MEMBER SINCE: 2009
USES THE BONUS TIME NETWORK RESERVATION CENTER FOR: Business Travel

"I always deal directly with Ruth in the GPR Bonus Time Network Reservation Center...Whether I'm going to Vegas or Chicago, ResorTime.com is always there to book the best in business travel!"

Friend us on Facebook, and be first in line for our latest contests, promotions and giveaways. Or become one of our Bonus Time Ambassadors by sharing your travel advice and experience with others!

2 WAYS TO BOOK Nightly Bonus Time Rentals

1. Online: **www.ResorTime.com/GPR**
2. Call: **877-879-6805**

Bonus Time Network is a registered service mark of ResorTime.com L.P., a California limited liability partnership.

Banking Too Many Weeks? Try Renting!

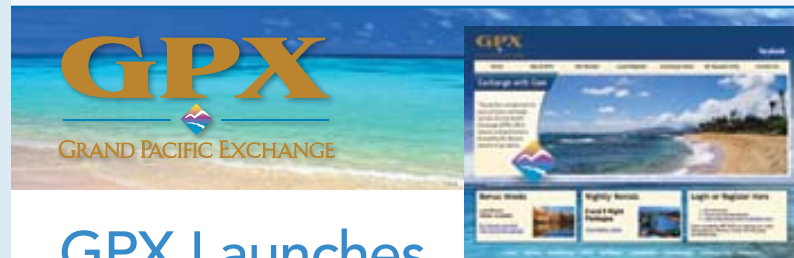
Use your existing banked weeks to find your dream vacation and consider renting your future weeks through the GPR Owner Rental Department.

Rental Program Benefits:

- No upfront fees
- Receive payment two weeks after your checkout date.
- Set it and forget it! Opt-in to have your week banked with GPX if it doesn't rent. Exchange your week later for only \$99!

Listing your week for rent is easy! Simply confirm your reservation dates and submit a rental agreement online. We'll do the rest.

Visit **www.gpresorts.com/rentmyweek** for details or call **800-831-3027** to speak to an agent today.



GPX Launches New Interactive Website

On March 2, 2011 GPX launched a brand new interactive website! EXCLUSIVE to GPR Owners, this site allows them to deposit, search and exchange 24/7, all online.

Meet Our First Owner to Exchange Using GPX's New Interactive Website!

OWNER: Gary Copeland
LOCATED IN: Tucson, AZ
OWNS AT: Mountain Retreat (2 weeks)
GPX MEMBER SINCE: March 2011
USES GPX FOR: Timeshare Exchanges

"I found the GPX website easy and painless, user friendly and very straightforward. The menu-driven search feature allowed me to narrow down my destination and travel dates. I appreciate the fact that GPX does not charge membership fees."

3 EASY STEPS To Register Your Ownership TODAY!

1. Visit **www.gpxvacations.com/login.html**
2. Complete your Free Registration
3. Receive your user name and password and start searching!

For Assistance call 866-325-6295

Hours: Mon-Fri: 8am-6pm/Sat: 8am-4pm

Calendar of Local Events (Continued from page 3)

CONCERT IN THE PARK

July 15, 2011

Free concert sponsored by the City of Oceanside Parks and Recreation Department. 5:30pm - 8pm at Rancho Del Oro Park (College Boulevard and Avenida Empresa). 760-435-5041

KIFM 98.1 JAZZ AT THE BEACH

July 16, 2011

21 and up smooth jazz concert. Lincoln Financial Media has reserved three dates for two jazz concerts at the Pier Amphitheater. 619-291-9797

OCEANSIDE PIER BAIT STORE 2ND ANNUAL KID'S FISH DERBY

August 6, 2011

Fishing Derby for kids 6-16. 9am - 1pm at the base of the Pier. 760-722-3936

OCEANSIDE LONGBOARD SURFING CLUB 27TH ANNUAL CONTEST AND BEACH FESTIVAL

August 12-14, 2011

Annual longboard surfing contest is sponsored by the Oceanside Longboard Surfing Club. Divisions are determined by age. 6:15am - 4pm at the Pier Amphitheater and South Pier Beach. 760-931-0301



Southern California Beach Club
1121 South Pacific St., Oceanside, CA 92054
760-722-6666
www.southerncalifbeachclub.com

Owner Services
5900 Pasteur Ct., Ste. 200, Carlsbad, CA 92008
888-477-6967 *International Owners 760-827-4100

Grand Pacific Resort Management
5900 Pasteur Ct., Ste. 200, Carlsbad, CA 92008
760-431-8500

Assessment, Billing & Collection
800-234-6222

ResorTime.com
Your Bonus Time Network Reservation Center
877-879-6805
ResorTime.com/GPR

Contact Your Resort Manager
Julie DaRonco - jdaronco@gpresorts.com

Contact Your Board of Directors
Marianne Caudill, President
email: scbcmarianne@roadrunner.com

Dave Fehlman, CFO
email: beachclubdave@gmail.com

Donald Taylor, Director
email: paradise@xmission.com
phone: 801-745-3271

Andrea Dangerfield
email: angelfield@cox.net

Eric Siegel
email: emsiegel49@gmail.com

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Grand Pacific Resort Services, L.P.
5900 Pasteur Court, Ste. 200
Carlsbad, CA 92008

BEACH CLUB
THE SOUTHERN CALIFORNIA





THE SOUTHERN CALIFORNIA
BEACH CLUB

VACATION OWNERS ASSOCIATION

121 South Pacific St., Oceanside, CA 92054

Financial Statements

December 31, 2010

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PKF

Accountants and
business advisers



Certified Public Accountants - A Professional Corporation
425 California Street, Suite 1600, San Francisco, CA 94104
Telephone (415) 421-5378/Telefax (415) 956-7708

Accountants and
business advisers

Independent Auditor's Report

The Board of Directors and Owners Southern California Beach Club Vacation Owners Association

We have audited the accompanying statement of assets, liabilities and fund balance (deficit) of Southern California Beach Club Vacation Owners Association, as of December 31, 2010, and the related statements of revenues and expenses and changes in fund balance (deficit) 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 of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of Southern California Beach Club Vacation Owners Association, at 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 of America.

The supplementary information on future major repairs and replacements on page 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PKF
Certified Public Accountants
A Professional Corporation

April 18, 2011



THE SOUTHERN CALIFORNIA
BEACH CLUB

VACATION OWNERS ASSOCIATION

Statement of Assets,
Liabilities and Fund Balance

December 31, 2010

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|---|---------------------------|-----------------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | \$275,773 | \$264,787 | \$540,560 |
| Assessments and other receivables | 956,889 | 191,785 | 1,148,674 |
| Prepaid expenses | 31,411 | 18,073 | 49,484 |
| Intrafund borrowing | (30,000) | 30,000 | - |
| Due from (to) other fund | <u>(40,358)</u> | <u>40,358</u> | <u>-</u> |
| Total assets | <u>\$1,193,715</u> | <u>\$545,003</u> | <u>\$1,738,718</u> |
| Liabilities and Fund Balance (Deficit) | | | |
| Accounts payable and accrued liabilities | \$57,872 | \$15,612 | \$73,484 |
| Due to related parties (net) | 17,650 | 3,461 | 21,111 |
| Deferred assessments | <u>1,337,075</u> | <u>292,275</u> | <u>1,629,350</u> |
| Total liabilities | <u>1,412,597</u> | <u>311,348</u> | <u>1,723,945</u> |
| Fund balance (deficit) | <u>(218,882)</u> | <u>233,655</u> | <u>14,773</u> |
| Total liabilities and fund balance (deficit) | <u>\$1,193,715</u> | <u>\$545,003</u> | <u>\$1,738,718</u> |



THE SOUTHERN CALIFORNIA
BEACH CLUB
VACATION OWNERS ASSOCIATION

Statement of Revenues and Expenses and Changes in Fund Balance (Deficit)

Year Ended December 31, 2010

| | <u>Operating Fund</u> | <u>Replacement Fund</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|-------------------------|
| Revenues | | | |
| Assessments | \$1,211,009 | \$270,610 | \$1,481,619 |
| Interest | 1,581 | 1,512 | 3,093 |
| Front desk and other income | <u>148,627</u> | <u>-</u> | <u>148,627</u> |
| Total revenues | <u>1,361,217</u> | <u>272,122</u> | <u>1,633,339</u> |
| | | | |
| Expenses | | | |
| Front office | 187,729 | - | 187,729 |
| Housekeeping | 344,395 | - | 344,395 |
| Owner relations/guest activities | 57,912 | - | 57,912 |
| Administration | 203,397 | 2,887 | 206,284 |
| Repairs, replacements and maintenance | 185,303 | 204,949 | 390,252 |
| Telephone and utilities | 107,519 | - | 107,519 |
| Fixed expenses | 259,796 | - | 259,796 |
| Provision for income taxes | 802 | - | 802 |
| Provision for doubtful accounts | <u>51,937</u> | <u>12,391</u> | <u>64,328</u> |
| Total expenses | <u>1,398,790</u> | <u>220,227</u> | <u>1,619,017</u> |
| Excess (deficiency) of revenues over expenses | (37,573) | 51,895 | 14,322 |
| Fund balance (deficit), beginning of year | <u>(181,309)</u> | <u>181,760</u> | <u>451</u> |
| Fund balance (deficit), end of year | <u>\$(218,882)</u> | <u>\$233,655</u> | <u>\$14,773</u> |

See notes to the financial statements



THE SOUTHERN CALIFORNIA
BEACH CLUB

VACATION OWNERS ASSOCIATION

Statement of Cash Flows

Year Ended December 31, 2010

| | Operating Fund | Replacement Fund | Total |
|---|-------------------|---------------------|------------------|
| Cash flows from operating activities | | | |
| Excess (deficiency) of revenues over expenses | \$(37,573) | \$51,895 | \$14,322 |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities | | | |
| (Increase) decrease in operating assets | | | |
| <i>Unit week inventory</i> | 33,387 | - | 33,387 |
| <i>Assessments and other receivables</i> | (66,880) | (15,648) | (82,528) |
| <i>Prepaid expenses</i> | 33,913 | (18,073) | 15,840 |
| <i>Intrafund borrowing</i> | 30,000 | (30,000) | - |
| <i>Due from (to) other fund</i> | (12,874) | 12,874 | - |
| Increase (decrease) in operating liabilities | | | |
| <i>Accounts payable and accrued liabilities</i> | 17,016 | (29,362) | (12,346) |
| <i>Due to related parties (net)</i> | 14,958 | (1,371) | 13,587 |
| <i>Deferred assessments</i> | 49,736 | 21,650 | 71,386 |
| Net cash provided by (used in) operating activities | <u>61,683</u> | <u>(8,035)</u> | <u>53,648</u> |
| Net increase (decrease) in cash and cash equivalents | <u>61,683</u> | <u>(8,035)</u> | <u>53,648</u> |
| Cash and cash equivalents - beginning of year | <u>214,090</u> | <u>272,822</u> | <u>486,912</u> |
| Cash and cash equivalents - end of year | <u>\$275,773</u> | <u>\$264,787</u> | <u>\$540,560</u> |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes | | | <u>\$2,429</u> |

See notes to the financial statements

Notes to the Financial Statements

December 31, 2010

Note 1 - Association and membership

Southern California Beach Club Vacation Owners Association (the Association) was incorporated on January 17, 1986 as a California nonprofit mutual benefit corporation with the specific and primary purpose of promoting the interests and welfare of the owners of vacation intervals situated in the project known as Southern California Beach Club in Oceanside, California. The Association is comprised of 2,193 Class A memberships, each of which is entitled to one vote.

In accordance with the Association's by-laws, each vacation interval owner is subject to basic, special and personal charge assessments by the Association.

Note 2 - Summary of significant accounting policies

Basis of accounting

The financial statements of the Association have been prepared on the accrual basis of accounting. Accordingly, all significant receivables, revenues and gains are recognized when earned and expenses, liabilities and losses are recognized when incurred.

Fund accounting

The Association uses fund accounting, which requires that funds, such as the operating fund and replacement fund, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the Board of Directors and Association management. Disbursements from the replacement fund generally may be made only for designated purposes.

Cash equivalents

The Association considers all highly liquid temporary investments with original maturities generally of three months or less when purchased to be cash equivalents. Cash equivalents include an investment in a money market fund held with a brokerage firm.

Concentration of credit risk

The Association's interest bearing deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 through December 31, 2012. At December 31, 2010, the Association has balances in excess of insured limits. The Association also maintains money market accounts with a brokerage firm that does not participate in FDIC or SIPC insurance programs. Therefore, all money market accounts are uninsured. The Association has not experienced any losses in such accounts. Management believes the Association is not exposed to significant credit risk relating to cash or money market accounts.

Assessments and deferred assessments

For the year ended December 31, 2010, each vacation membership owner was assessed approximately \$685, inclusive of a \$125 replacement fund assessment. The 2011 annual assessment is \$700, inclusive of a \$135 replacement fund assessment, and is included in deferred assessments until earned.

Allowance for doubtful accounts

Assessments receivable at December 31, 2010 consist principally of advance assessment billings for the year ending December 31, 2011. Accordingly, an allowance for doubtful accounts has not been established as of December 31, 2010.

All assessments are due and payable January 1. Interest, at rates determined by the Board, is charged on delinquent assessments. The Association may suspend rights and privileges of interval owners with delinquent assessments as defined in the by-laws. The Association's policy is to write-off all unpaid assessment receivables not collected by December 31st of the year in which the assessment pertains. Subsequent collection is recognized as bad debt recovery in the year received, which is netted with the provision for doubtful accounts on the statement of revenues, expenses and changes in fund balance (deficit).

Property and equipment

Ownership of the commonly owned assets is vested directly and indirectly in the interval owners, and those assets are not titled in the Association's name. As a result, commonly owned assets are not presented in the Association's financial statements.

Replacement fund assessments

The Association has designated certain amounts as replacement funds to provide for the payment of future repair and rehabilitation expenditures, as specifically approved by the

Association's Board of Directors. The Association's replacement fund program is subject to a reserve analysis study. The most recent study conducted in 2010 was prepared by Hughes Reserves, who specializes in the preparation of reserve studies. The preparation of the reserve analysis is based upon certain assumptions in regards to existing reserve fund balances, inflation and investment rate factors, the estimated life span and the current cost of the reserve items. Furthermore, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

Based on the study and the estimates contained in the underlying report, Association management believes the existing replacement funding program together with the future business plan is adequate to meet future repair and rehabilitation expenditures. Should such funds not be adequate, or if additional funds are needed, the Association has the right, subject to certain limitations, to increase the annual assessments, pass special assessments, or delay the expenditures until funds are available.

Presentation of certain taxes

The Association collects various taxes, generally occupancy taxes, and remits these amounts to applicable taxing authorities. The Association's accounting policy is to exclude these taxes from revenues and expenses.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported as assets, liabilities, revenues, expenses and related disclosures. Actual results could differ from these estimates.

Subsequent events

Subsequent events are events or transactions that occur after the statement of assets, liabilities and fund balance (deficit) date but before the financial statements are available to be issued. The Association evaluates all subsequent events and transactions to determine whether any transaction needs to be recognized or disclosed. The Association has evaluated all subsequent events through April 18, 2011, which is the date the financial statements are available to be issued, and has determined no events or transactions need to be recognized or disclosed in these financial statements.

Note 3 - Related parties

Management agreement

The Association is operated under a management agreement with a professional property management company, Grand Pacific Resort Services, L.P. (GPRS). The Association's management budget is within guidelines established by the Department of Real Estate. Management fees under this agreement were \$139,989 for the year ended December 31, 2010, of which \$119,714 is allocated as fixed expenses under the operating fund and \$20,275 is allocated as repairs, replacement and maintenance under the replacement fund.

In addition, the Association shall compensate GPRS and other affiliated companies for other services provided, including but not limited to assessment billings and collection, accounting and computer services, file and reservation system maintenance, owner relations service and Board of Directors and members meetings coordination. The Association also reimburses GPRS for any out of pocket expenses paid. At December 31, 2010, the Association owed other affiliated companies \$21,111 for services provided.

Unit week inventory

The Association and Advanced Commercial Corporation ("ACC") entered into an agreement regarding unpurchased vacation intervals. ACC will bear the cost of foreclosing, deeding back, marketing and reselling the unpurchased vacation intervals. The Association will no longer receive the net proceeds from the sale. As a result, the unit week inventory was written off. In addition, in accordance with a sales and marketing agreement, ACC is no longer responsible for assessments on unpurchased vacation intervals.

Inventory management agreement

The Association entered into an inventory management agreement with GPRS. Under this agreement, GPRS will use its centralized management of resort interval inventory to maximize owner use of the property, ensure quality outbound exchanges for owners who wish to vacation elsewhere, and GPRS will guarantee the transient room revenue the Association budgeted for the upcoming year. The Association agrees to permit GPRS to manage, allocate and control resort room inventory, and to use all room inventory that is not occupied by either owners or

exchangers. The Association recognized \$128,600 in guaranteed room revenue for the year ended December 31, 2010.

Note 4 - Income taxes

For federal tax purposes, the Association is taxed under Internal Revenue Code Section 528 as an exempt organization. The Association is taxed on its non-exempt income less expenses directly connected with the production of the non-exempt income. Exempt function income is not subject to tax. Income tax is calculated at 32% of taxable income.

For state tax purposes, the Association is organized as a non-exempt membership organization and is taxed on its excess nonmember income (principally interest and usage by nonmembers) at the normal corporate tax rates.

Federal and state income taxes for 2010 were \$0 and \$802, respectively.

Uncertain tax positions

The Association is required to identify and evaluate all uncertain tax positions to determine whether it is more-likely-than-not that an uncertain tax position will be sustained upon examination for all open tax years. At December 31, 2010, the Association is not aware of any uncertain tax positions that are more-likely-than-not to be sustained. The Association is no longer subject to U.S. federal or California income tax examinations by tax authorities for years before 2007 and 2006, respectively.

Note 5 - Operating lease

Effective May 31, 1996, the Association leases telecommunication equipment from Grand Pacific Resort Services, L.P., (GPRS), an affiliate. The Association has also granted GPRS the exclusive right to provide local and long distance services and operator assisted services. The term of the lease is ten years and is subsequently renewed for an additional five years. The Association will pay approximately \$1,282 per month (subject to annual cost of living increases) for the leased equipment and remit user charges in accordance with the agreement. Telephone expense of \$32,804 at December 31, 2010 included operating lease payments and charges incurred with long distance carriers.

Future minimum lease payments are as follows:

| | |
|-------------------------|----------------|
| Year Ending December 31 | |
| 2011 | <u>\$8,320</u> |

Note 6 - Intrafund borrowing

In November 2010, the Board of Directors approved a \$30,000 loan to the operating fund from the replacement fund to settle litigation. In accordance with the California Civil Code, the Association generally has one year to repay this loan.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2010 (Unaudited)

Hughes Reserves conducted a study in 2010 to estimate the remaining useful lives and the replacement costs of the components of common property subject to future repairs and replacements. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study, the date that the components will require repair or replacement or the costs incurred since the date of the study. During 2010, the Association conducted repairs and replacements totaling \$204,948.

The following table is based on the 2010 study and presents a condensed summary of information about the items of property. Estimated current replacement costs are based on the assumptions that the inflation rate and interest rate are 3% and 1.5%, respectively.

| Components | Estimated Remaining Life in Years | Estimated Current Replacement Costs | Recommended 2010 Funding Requirement |
|------------------------|--------------------------------------|--|---|
| Buildings | 0-24 | \$1,001,028 | \$155,486 |
| Furniture and fixtures | 0-6 | <u>747,223</u> | <u>116,063</u> |
| Totals | | <u>\$1,748,251</u> | <u>\$271,549</u> |