



Your Reserve Funds at Work

Spring is in the air at Carlsbad Seapointe Resort and Management has been working hard to put your reserve funds to best use.

Many important changes have been completed throughout the year. Some of the most notable ones are highlighted below. Management has changed out 36 heating, ventilating, and air conditioning units. These units are more energy efficient and run on the new environmentally friendly R-410 refrigerant. Plus, in an effort to minimize unit calls, especially



during the summer months, we have re-piped the A/C overflow lines. For the overall safety of the resort, the fire panel has been replaced. This is a very important upgrade to the resort's life safety system.

Some upcoming projects include performing preventive maintenance on the domestic water pressure regulating station, which controls the water we provide to our Owners and Guests.

One of the big projects we are very excited to complete is the elevator upgrade. As you may have heard, both elevators have gone through mechanical repairs and we will next upgrade both elevator interiors. This project will include new flooring, lighting, side and rear panels and railings, providing a Southern California beach feel for our Owners as they head to their units.



Celebration of Ownership!

The Carlsbad Seapointe Resort Annual Homeowners' meeting on March 5th was a Grand Slam! We would like to express our sincere thanks to all of the Owners who attended. The entire Carlsbad Seapointe Resort management team and staff was on hand to help serve the attendees throughout the beautiful sunny day. Pacific Trails Catering prepared and served delicious food, while we all enjoyed the poolside steel drum music by a local musician, Keli.

During the Owner meeting, Management presented details on overall Operations, Guest Satisfaction/Combined Service Scores, Upgrades and Improvements, Christal House Charities, ResorTime.com and Central Reservations. Dr. Joseph Spirito and David Brown were re-elected to the CSR HOA Board of Directors. We hope that all of our Owners enjoyed this celebration of Ownership. We look forward to seeing you in the weeks ahead.



CSR Annual Owners' Meeting Highlights

March 5, 2011

President Dr. Joseph Spirito called the meeting to order at 2pm.

The following actions took place:

- The March 6, 2010 Annual Meeting Minutes were approved.
- Mandi Osborn, General Manager, provided a PowerPoint presentation outlining resort operations that included Front Desk, Activities, Maintenance and Housekeeping, reserve improvements for 2010 and 2011, year-end fiscal performance, guest satisfaction scores, conservation efforts, Owner appreciation, social media and the Christel House charity. Services available through ResorTime.com, the Grand Pacific Exchange Program (GPX) and the Owner Rental Program were also explained.
- The election results were as follows: Incumbents Dr. Joseph Spirito and David Brown were elected to the Board of Directors for a two-year term.
- Owner Forum topics included marketing, Bonus Time, assessment fees, and tennis court lighting.
- The meeting was adjourned at 3:15pm.

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.

Board of Directors' Meeting Highlights

March 5, 2011

President Dr. Joseph Spirito called the meeting to order at Carlsbad Seapointe Resort at 12:32pm. All Board members were in attendance. Resort Management and several Owners were also present. Hayley Hughes took the minutes.

The following actions took place:

- The Board approved the Minutes of the December 3, 2010 Board of Directors' Meeting.
- An overview of front desk operations, housekeeping, maintenance, fiscal performance and reserves was presented.
- The Board approved 2011 reserve expenditures not to exceed \$62,000.
- The meeting adjourned at 1:25pm.

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.



2011/2012 Meeting Dates

Tuesday, June 14, 2011
11am at Carlsbad Seapointe Resort

Thursday, September 15, 2011
10am at Carlsbad Seapointe Resort

Friday, December 2, 2011
2pm at Carlsbad Seapointe Resort

Saturday, March 3, 2012
12:30pm at Carlsbad Seapointe Resort

Saturday, March 3, 2012
2pm Annual Owners Meeting at Carlsbad Seapointe Resort



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.

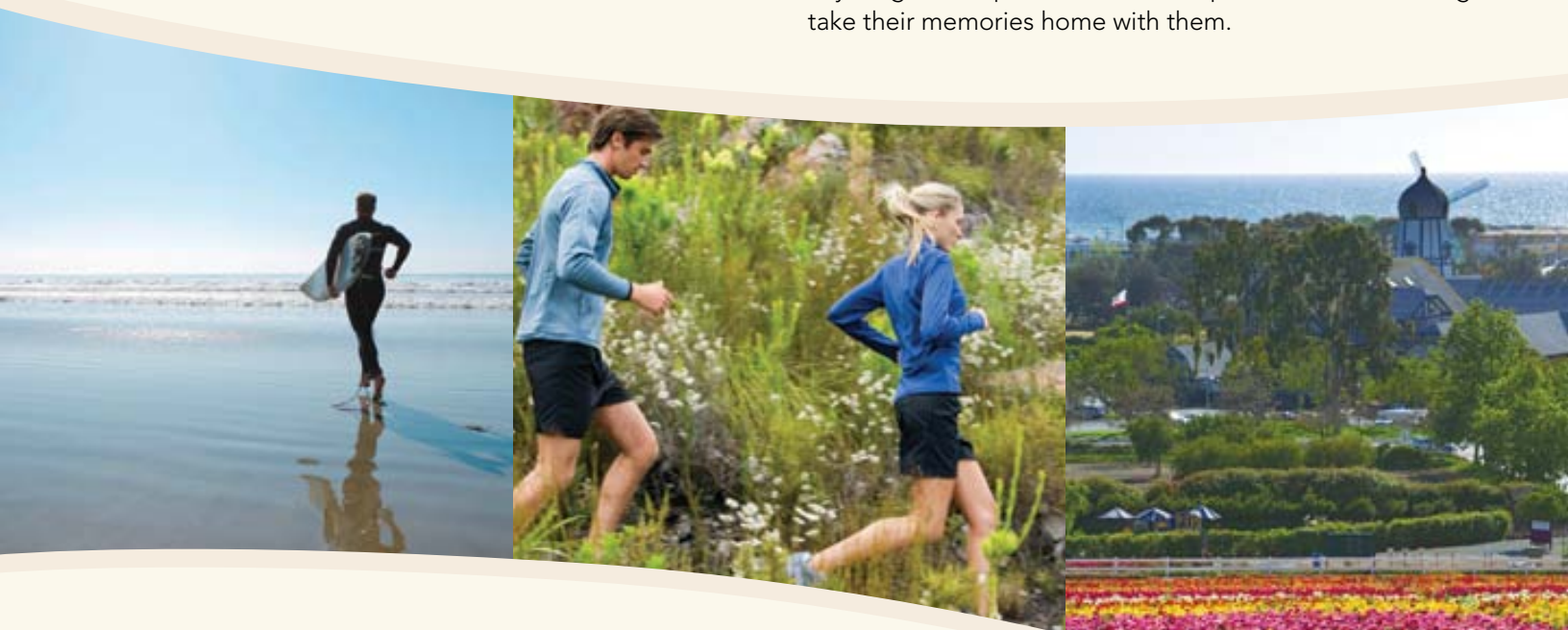
Seapointe Photo Contest

The Owners at Seapointe are getting very creative with their cameras. Every week the Seapointe Activities Department puts on a photo contest. Owners have from Sunday to Thursday to take pictures of whatever they wish during their daily trips - down at the beach, around the resort or wherever else they visit during the week.

On Thursdays Owners choose one photo per unit to enter into the contest. We then print out the photo on 4x6 photo paper and display all the photos during our Wine & Cheese Social on Friday evening in the Lobby. All Owners in attendance will then vote on their favorite photo and the winner takes home two Seapointe logo wine glasses.



Another great and related program is showcasing Seapointe activities in Print Shop: Owners can turn their photos into anything from a picture album to a puzzle to a coffee mug and take their memories home with them.



Calendar of Local Events

June 10 - July 4, 2011

San Diego County Fair

This isn't your typical county fair! The view from the San Diego County Fair ferris wheel alone - overlooking the blue Pacific - sets us apart from most fairs. They have all of the outlandish fried foods on-a-stick you know and love, plus exquisite gardens, livestock barns, endless exhibits, and a top-notch midway complete with carnival rides. In addition, the San Diego County Fair boasts

eight stages, programmed with some of the most quality entertainment Southern California has to offer!
www.sdfair.com

**June 18 - August 29 and
September 4-6, 2011**

Sea World's Summer Nights

Come see Summer Nights when the park transforms after dark with extended hours and seasonal nighttime only shows. Feel the amazing energy of Shamu Rocks, SeaWorld's nighttime show.

Share a laugh with sea lions Clyde and Seamore at Sea Lions Tonite and marvel at Cirque de la Mer, our breathtaking acrobatic extravaganza over water. Then let your spirit soar during Shamu's SkySplash fireworks finale.

www.seaworld.com

July 9-10 and July 16-17, 2011
58th Annual World Championship Over-The-Line Tournament

A form of softball, limited to

1,200 teams of three persons each, playing almost 2,400 games in two weekends with 52,000 expected to attend. Play is from 7:30am to dusk on Fiesta Island, Mission Bay.
www.sandiego.org/event/Visitors/33

July 20 - September 7, 2011
Del Mar Racing Season

The "turf meets the surf"

(Continued on page 6)

Exchange Tips From Owner Services



As an Owner at Carlsbad Seapointe Resort, one of your use options is to exchange your week with the exchange company of your choice. This allows you to access a wide variety of exciting vacation destinations!



If exchanging your week at Carlsbad Seapointe Resort is part of your vacation plans, here are some quick, easy steps to get you started:

- Secure your week at your Home Resort.
- Each exchange company has different rules outlining the timeline in which you can deposit your week and the cutoff date that they will accept deposits. If you are unsure of your ownership type and the timeline for exchange, we will be happy to guide you through that process. You can contact Owner Services for more information.
- 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: 1-800-743-3305 / www.rci.com

RCI Points: 1-888-968-7476 / www.rci.com

HGVC: 1-800-230-7068 / www.hgvc.com

GPX: 1-866-325-6295 / www.gpxvacations.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 1-888-477-6967.



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. 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.

HGVC 101 Class Schedule

June 11th & 25th, July 9th & 16th, August 6th & 20th

All classes are on a Saturday and start at 9am, 10am or 11am.

RCI Weeks 101 Class Schedule

June 18th, No Classes in July, August 13th

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



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

Referring your friends & family to us is a privilege.

We would like to honor you with Hilton HHonors® points.

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Grand Pacific Resorts Owners are eligible to receive Hilton HHonors® Points.

Grand Pacific Carlsbad, L.P. - Timeshare Developer - 5900 Pasteur Court, Suite 200, Carlsbad, CA 92008



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!

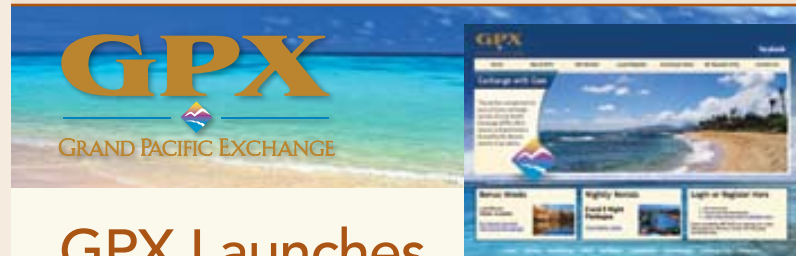
Use your existing banked weeks to find your dream vacation and consider renting your future weeks through the GPR Owner Rental Department.

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)

at the Del Mar Racetrack where fans flock each summer to wager on their favorite horses during the popular, annual Del Mar Thoroughbred Club racing season. Be part of the magic and nostalgia of this long-time tradition dating back to 1937 when Bing Crosby greeted the first guests and Seabiscuit won by a nose in the infamous race in 1938. The season features the nation's top horses, trainers and jockeys, and plenty of fun in the sun. The races run five days weekly, except Monday and Tuesday. Every Friday, guests can catch 4 O'Clock Fridays, a free headliner concert following the day's last race. www.dmtc.com/season/information.php

June-Early August

TGIF Jazz In The Parks, Carlsbad

Every Friday through late Summer means TGIF Jazz in the Parks, a tradition that has truly become an integral part of the community's life. Since 1986, the City of Carlsbad's Cultural Arts Office has been presenting free jazz concerts in the city's parks during the summer. In 1986, there were four concerts, with about 150 people at each concert. Now each concert attendance reaches approximately 4,000 people.

www.carlsbadca.gov/services/departments/cultural/Pages/tgif-jazz.aspx

*Event dates and times are subject to change.



Carlsbad Seapointe Resort

6400 Surfside Lane
Carlsbad, CA 92118
760-603-1700

www.CarlsbadSeapointe.com

Facebook: Carlsbad-Seapointe-Resort
Twitter: SeapointeResort

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

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





CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

6400 Surfside Lane, Carlsbad CA 92011

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 Carlsbad Seapointe Resort Owners Association, Inc.

We have audited the accompanying statement of assets, liabilities and fund balance of Carlsbad Seapointe Resort Owners Association, Inc., as of December 31, 2010, and the related statements of revenues and expenses and changes in fund balance, 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 Carlsbad Seapointe Resort Owners Association, Inc., 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 20, 2011



CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

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	\$800,617	\$728,307	\$1,528,924
Assessments and other receivables	2,863,607	505,104	3,368,711
Due from related parties (net)	41,623	51,162	92,785
Prepaid expenses	118,277	-	118,277
Prepaid income taxes	21,078	-	21,078
Due from (to) other fund	474,991	(474,991)	-
Total assets	<u>\$4,320,193</u>	<u>\$809,582</u>	<u>\$5,129,775</u>
Liabilities and Fund Balance			
Accounts payable and accrued liabilities	\$192,295	\$51,164	\$243,459
Deferred assessments	<u>3,872,788</u>	<u>732,273</u>	<u>4,605,061</u>
Total liabilities	4,065,083	783,437	4,848,520
Fund balance	255,110	26,145	281,255
Total liabilities and fund balance	<u>\$4,320,193</u>	<u>\$809,582</u>	<u>\$5,129,775</u>



CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

Statement of Revenues and Expenses
and Changes in Fund Balance

Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Assessments	\$4,336,749	\$718,351	\$5,055,100
Interest	5,561	2,869	8,430
Front desk and other income	<u>617,330</u>	<u>-</u>	<u>617,330</u>
Total revenues	<u>4,959,640</u>	<u>721,220</u>	<u>5,680,860</u>
Expenses			
Front office	458,921	-	458,921
Housekeeping	840,451	-	840,451
Owner relations/guest activities	354,784	-	354,784
Administration/sales	568,915	10,074	578,989
Repairs, replacements and maintenance	513,760	409,136	922,896
Telephone and utilities	311,006	-	311,006
Fixed expenses	1,089,929	-	1,089,929
Provision for income taxes	(18,725)	-	(18,725)
Provision for doubtful accounts	<u>149,320</u>	<u>39,355</u>	<u>188,675</u>
Total expenses	<u>4,268,361</u>	<u>458,565</u>	<u>4,726,926</u>
Excess of revenues over expenses	691,279	262,655	953,934
Fund deficit, beginning of year	<u>(436,169)</u>	<u>(236,510)</u>	<u>(672,679)</u>
Fund balance, end of year	<u>\$255,110</u>	<u>\$26,145</u>	<u>\$281,255</u>

See notes to the financial statements



CARLSBAD SEAPOINTE RESORT
OWNERS ASSOCIATION, INC.

Statement of Cash Flows

Year Ended December 31, 2010

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses	\$691,279	\$262,655	\$953,934
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Non-cash property tax adjustment	(686,157)	-	(686,157)
(Increase) decrease in operating assets			
<i>Assessments and other receivables</i>	(155,172)	(6,611)	(161,783)
<i>Due from related parties (net)</i>	99,511	(6,030)	93,481
<i>Prepaid expenses</i>	18,055	-	18,055
<i>Prepaid income taxes</i>	(34,565)	-	(34,565)
<i>Due from (to) other fund</i>	39,477	(39,477)	-
Increase (decrease) in operating liabilities			
<i>Accounts payable and accrued liabilities</i>	17,474	23,462	40,936
<i>Deferred assessments</i>	124,026	14,290	138,316
Net cash provided by operating activities	<u>113,928</u>	<u>248,289</u>	<u>362,217</u>
Net increase in cash and cash equivalents	113,928	248,289	362,217
Cash and cash equivalents			
- beginning of year	<u>686,689</u>	<u>480,018</u>	<u>1,166,707</u>
Cash and cash equivalents			
- end of year	<u>\$800,617</u>	<u>\$728,307</u>	<u>\$1,528,924</u>
Supplemental disclosure of cash flow information:			
Cash paid for income taxes			<u>\$57,678</u>

See notes to the financial statements

Notes to the Financial Statements

December 31, 2010

Note 1 - Association and membership

Carlsbad Seapointe Resort Owners Association, Inc. (the "Association") was incorporated on July 10, 1995, 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 Carlsbad Seapointe Resort in Carlsbad, California. The Association is comprised of Class A memberships for annual owners, Class B memberships for biennial owners, and Class C memberships for vacation intervals still owned by the project's developer. Annual memberships are entitled to two votes, and biennial memberships are entitled to one vote. Vacation interval sales commenced during July 1996.

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 investments in money market funds 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 amounts. 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 annual vacation membership owner was generally assessed \$846 for a two bedroom unit and \$755, \$723 or \$691 for a specific type of one bedroom unit, inclusive of the replacement fund assessment. Biennial vacation membership assessments are one-half of the annual membership assessment amount. Under this program, units within the unit type originally purchased can be used once every two years.

The 2011 annual assessments are \$878, \$784, \$751 and \$718, inclusive of replacement fund assessment, and are 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 within ten days after the interval owner is billed. 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 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.

Property tax assessments

Real and personal property tax assessments are based on taxes billed by the County, as well as an estimate made by the Association for certain parcels of real and personal property that have been placed in service at the Association but have not been billed by or paid to the county. The property taxes estimated were previously deferred on the statement of assets, liabilities and fund balance. In 2010, the Association no longer believes they will be billed by the County, and as a result, \$686,157 has been recognized as revenue in the statement of revenues, expenses and fund balance.

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 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 20, 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

Unit week inventory

Effective January 1, 2001, the project's developer became responsible for the assessments pertaining to unpurchased vacation intervals. 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. In addition, in accordance with a sales and marketing agreement, ACC is no longer responsible for assessments on unpurchased vacation intervals. At December 31, 2010, the developer owed the Association \$261,432 in assessments and past subsidies.

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 \$197,270 in guaranteed room revenue for the year ended December 31, 2010. At December 31, 2010, the Association owed GPRS \$117,615 for transient room revenue generated in excess of budget.

Management agreement

The Association is operated under a management agreement with a professional property management company, Grand Pacific Resort Services, L.P., (GPRS) a California limited partnership, an affiliate of both the Association and developer. The Association's management budget is within guidelines established by the Department of Real Estate. Management fees under this agreement were \$370,075 for the year ended December 31, 2010, of which, \$332,881 is allocated as fixed expenses under the operating fund and \$37,194 is allocated as repairs, replacements 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 billing 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 GPRS and other affiliated companies \$51,031 for services provided.

Licensing agreement

Effective July 1, 1996, the Association has entered into a licensing agreement with Grand Pacific Resorts, Inc. (GPR, Inc.) a California corporation. GPR, Inc. grants the Association a non-exclusive license to use certain recreational facilities located in the project. The term of the agreement is thirty years and is automatically renewable for an additional five years, unless terminated in accordance with the license agreement. The Association will pay \$2,117 per month (subject to annual cost of living increases and addition of units). The license fee for 2010 totaled \$25,404.

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 \$800, 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 August 31, 1996, the Association has leased telecommunication equipment from GPRS. 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, unless terminated in accordance with the lease agreement. The Association pays approximately \$3,342 per month (subject to annual cost of living increases) for the leased equipment and remits user charges in accordance with the agreement. Telephone expense of \$71,563 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>\$28,640</u>

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 \$409,136.

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 inflation rate and interest rate are 4% and 2%, respectively.

Components	Estimated Remaining Life in Years	Estimated Current Replacement Costs	Recommended 2010 Funding Requirement
Buildings	0-18	\$4,901,128	\$480,635
Furniture and fixtures	0-6	<u>2,069,619</u>	<u>202,961</u>
Totals		<u>\$6,970,747</u>	<u>\$683,596</u>