

2012 ANNUAL REPORT

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\$8.0 MILLION | CAPITAL INFRASTRUCTURE INVESTMENT

Re-investing previously accumulated funds of the Association. Refer to the capital discussion starting on page 8 for full details.

\$2.1 MILLION | PURCHASE OF EVER VALLEY LAND (482 ACRES)

\$950,000 expended in 2011, for \$3.0 million total purchase price. This adjacent land acquisition adds significant recreational and other benefits to the Association's members. Recreational amenity expansion funds were used for this purchase.

\$1.3 MILLION | PURCHASE OF FORESTRY BUILDING (8,841 SQ FT) AND LAND (20 ACRES)

Replacement of 40+ year old dilapidated building in new location significantly reduced cost than construction of a new facility.

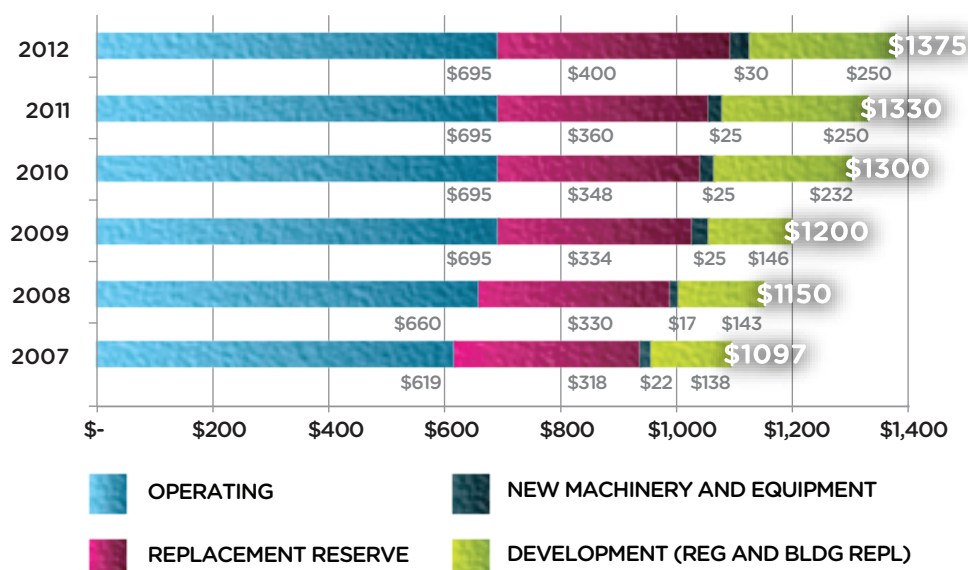
\$3.7 MILLION REPLACEMENT RESERVE FUND EXPENDITURES

Includes replacement of grooming machines, maintenance and forestry buildings and component costs.

\$113,000 OR 2.5% FAVORABLE NET OPERATING RESULTS IN OPERATING FUND

\$8.2 MILLION IN REVENUES, **UNDER BUDGET \$1.0 MILLION OR 11%**

\$12.6 MILLION IN COSTS, **UNDER BUDGET \$1.1 MILLION OR 8%** (See next page for further details.)



ANNUAL ASSESSMENT PER OWNER (BY FUND)

OPERATING FUND CAGR 2.3%

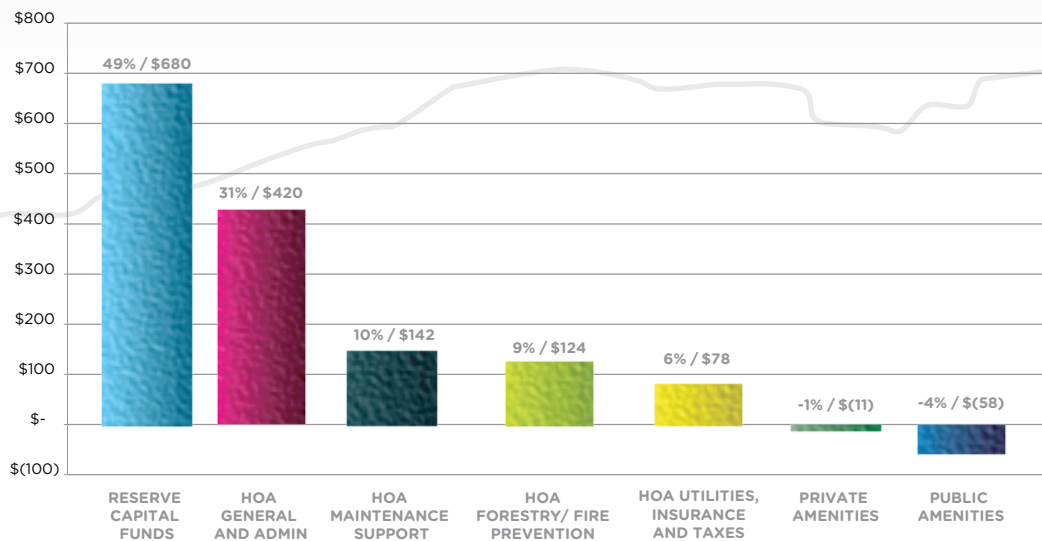
CAPITAL FUNDS CAGR 7.3%

TOTAL ASSESSMENT CAGR 4.6%

COMPOUNDED ANNUAL GROWTH RATE (CAGR), 2007 TO 2012

Accumulating funds over time to address the aging infrastructure needs of your association, consistent with the General Plan, while striving to optimize the operating fund portion of your assessment.

DISTRIBUTION OF 2012 ANNUAL ASSESSMENT (\$1,375 PER OWNER)



Net Operating Results (NOR) of amenities provides a net reduction of \$69 in Annual Assessment as Budgeted, Actual results vary.
Note, amenities do not receive administrative support cost allocation or capital cost charge in NOR.

DEAR MEMBERS,

The purpose of this 2012 Annual Report is to provide a comprehensive report on 2012 financial results and communicate the 2012 Audited Financial Statements and Independent Auditor's Report to all members.

Management, Finance Committee, and the Board consistently monitor both operational and financial results. We are committed to both responsive and proactive management, balancing our service levels to volume and financial performance.

Please contact me anytime to discuss this report or any other financial aspects of your association.

Michael Salmon

Director of Finance & Accounting

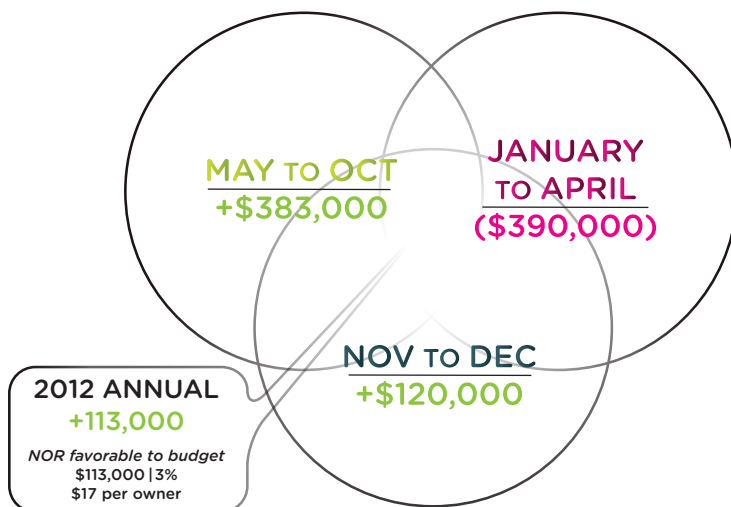
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OPERATING FUND

NET OPERATING RESULTS - 2012 VARIANCES TO BUDGET



JANUARY - APRIL: NO SNOW UNTIL MID-JANUARY

Revenues off \$1.1m/30%, however good cost savings mitigated impact

MAY - OCT: SLOW START TO GOLF, GOOD RESULTS OVERALL

Golf revenue off \$127,000/11%, Golf NOR off \$143,000/101%

Other amenities performed very well

Cost savings initiative \$357,000 savings, with \$212,000 in Forestry

NOVEMBER - DECEMBER: JUST ENOUGH SNOW

Received enough snow to have good holiday business

Revenue up \$37,000, cost savings of \$83,000

\$ 42.6 MILLION | \$6,576 PER OWNER

Members' equity as of 12/31/2012, up 5% to 2011

\$ 4.4 MILLION | \$680 PER OWNER

Capital Contribution by Annual Assessment in 2012

\$ 4.5 MILLION | \$695 PER OWNER

Operating Contribution by Annual Assessment in 2012

\$ 8.2 MILLION OPERATING REVENUES

Down 11% to Budget and down 1% to 2011

\$ 12.6 MILLION OPERATING COSTS

Down 8% to Budget and down 3% to 2011

\$ 4.4 MILLION NOR LOSS

Net Operating Result Loss | \$113,000 or 3% favorable to Budget and \$298,000 or 6% favorable to 2011

145,542 | TROUT CREEK REC CENTER VISITS UP 4% TO 2011 (399 AVERAGE PER DAY)

32,778 | DOWNHILL SKI AREA VISITS DOWN 27% TO 2011 (349 AVERAGE PER SEASON DAY)

44,076 | THE LODGE RESTAURANT DINNER GUESTS UP 7% TO 2011 (121 AVERAGE PER DAY)

40,998 | BEACH CLUB MARINA VISITS UP 4% TO 2011 (304 AVERAGE PER SEASON DAY)

23,159 | CROSS COUNTRY SKI CENTER VISITS

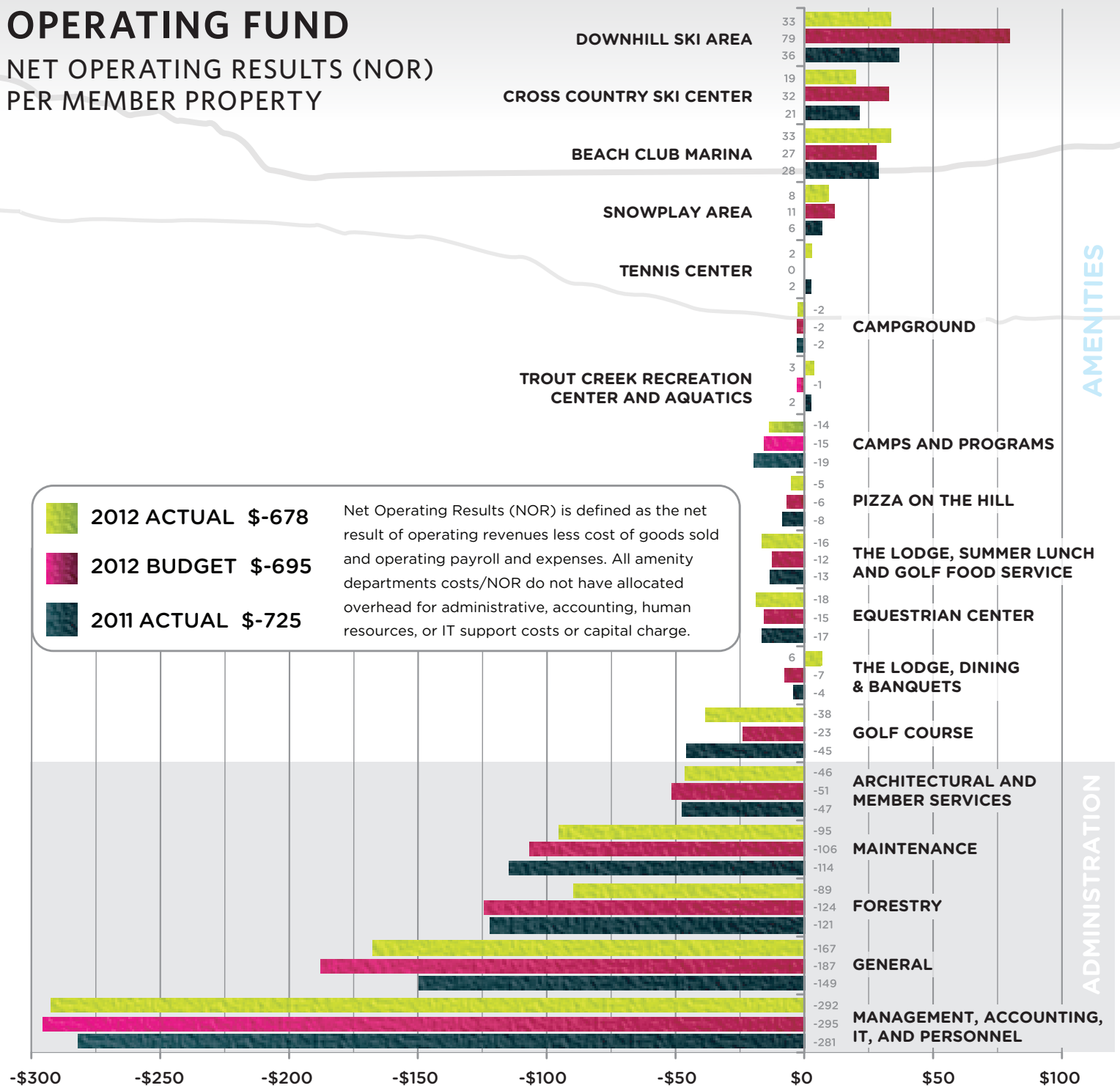
DOWN 15% TO 2011 (246 AVERAGE PER SEASON DAY)

19,113 | GOLF ROUNDS UP 13% TO 2011 (127 AVERAGE PER SEASON DAY)

11,135 | SNOWPLAY AREA VISITS DOWN 33% TO 2011 (192 AVERAGE PER SEASON DAY)

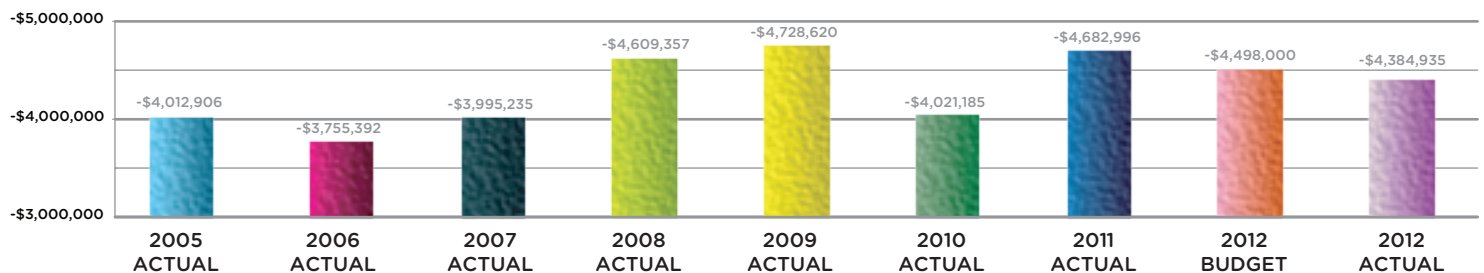
OPERATING FUND

NET OPERATING RESULTS (NOR) PER MEMBER PROPERTY



OPERATING FUND - NET OPERATING RESULT COST TO ALL MEMBER PROPERTIES

(FUNDED BY ANNUAL ASSESSMENT) 1.5% CAGR, 2005 to 2012 2.4% CAGR, 2007 to 2012



OPERATING FUND 2012 DEPARTMENTAL RESULTS

	2012 ACTUAL				2012 NOR VS BUDGET	
	GROSS REVENUE	COST OF GOODS SOLD	OPERATING EXPENSES	NET OPERATING RESULTS	2012 BUDGET	ACTUAL TO BUDGET VARIANCE
PRIVATE AMENITIES						
TROUT CREEK RECREATION CENTER AND AQUATICS	\$1,019,816	\$-29,834	\$-927,585	\$17,397	\$-4,900	\$22,297
BEACH CLUB MARINA	481,924	-33,400	-238,188	210,336	172,800	37,536
TENNIS CENTER	214,442	-38,333	-165,527	10,582	-2,000	12,582
CAMPS AND PROGRAMS	220,587	-3,461	-306,088	-88,962	-95,700	6,738
TOTAL PRIVATE AMENITIES	1,936,769	-105,028	-1,682,388	149,353	70,200	79,153
PUBLIC AMENITIES						
GOLF	1,013,315	-79,883	-1,180,244	-246,812	-151,000	-95,812
DOWNHILL SKI AREA	1,908,567	-130,811	-1,561,047	216,709	513,600	-296,891
CROSS COUNTRY SKI CENTER	571,427	-36,448	-414,951	120,028	204,800	-84,772
SNOWPLAY	95,706	-860	-42,662	52,184	72,500	-20,316
CAMPGROUND	39,931	0	-55,815	-15,884	-12,700	-3,184
EQUESTRIAN	95,576	-4,785	-209,949	-119,158	-94,100	-25,058
THE LODGE - DINING AND BANQUETS	1,621,754	-528,576	-1,055,183	37,995	-43,000	80,995
THE LODGE - LUNCH AND GOLF AND FOOD SERVICES	152,482	-58,680	-199,946	-106,144	-80,300	-25,844
PIZZA ON THE HILL	265,598	-79,646	-219,217	-33,265	-38,200	4,935
TOTAL PUBLIC AMENITIES	5,764,356	-919,689	-4,939,014	-94,347	371,600	-465,947
TOTAL AMENITIES	7,701,125	-1,024,717	-6,621,402	55,006	441,800	-386,794

HOMEOWNERS ASSOCIATION AND AMENITIES SUPPORT SERVICES

GENERAL	186,246	0	-1,252,458	-1,066,212	-1,215,700	149,488
MANAGEMENT, ACCOUNTING, PERSONNEL, IT	209,375	0	-2,097,921	-1,888,546	-1,906,600	18,054
ARCHITECTURAL AND MEMBER SERVICES	73,656	0	-370,386	-296,730	-330,500	33,770
FORESTRY	34,628	0	-608,386	-573,758	-800,000	226,242
MAINTENANCE	0	0	-614,695	-614,695	-687,000	72,305
TOTAL HOA	503,905	0	-4,943,846	-4,439,941	-4,939,800	499,859
TOTAL OPERATING RESULTS	8,205,030	-1,024,717	-11,565,248	-4,384,935	-4,498,000	113,065
ASSESSMENT REVENUES	4,498,000	0	0	4,498,000	4,498,000	0
TOTAL OPERATING FUND	\$12,703,030	\$-1,024,717	\$-11,565,248	\$113,065	\$0	\$113,065

Net Operating Results (NOR) is defined as the net result of operating revenues less cost of goods sold and operating expenses. All Amenity departments costs do not have allocated overhead for administrative, accounting, human resources, or IT support costs. The amenity support costs are in respective departments under the Homeowners Association and Support Services section.

YEAR ENDING DECEMBER 31, 2012

2012 NOR VS 2011	
2011 ACTUAL	2012 TO 2011 VARIANCE
\$11,595	\$5,802
183,882	26,454
15,490	-4,908
-120,387	31,425
90,580	58,773
-292,591	45,779
230,381	-13,672
134,502	-14,474
41,646	10,538
-11,893	-3,991
-109,392	-9,766
-24,406	62,401
-83,363	-22,781
-52,490	19,225
-167,606	73,259
-77,026	132,032

AMOUNTS INCLUDING REPLACEMENT RESERVE CAPITAL CONTRIBUTION					
NOR 2012 ACTUAL	CONTRIBUTION TO REPLACEMENT RESERVE FUND	2012 NET RESULTS AFTER CAPITAL	2012 PER PROPERTY 6,471	2011 PER PROPERTY 6,471	2012 VS 2011
\$17,397	\$-178,266	\$-160,869	\$-25	\$-25	\$0
210,336	-63,013	147,323	23	19	4
10,582	-145,391	-134,809	-21	-13	-8
-88,962	-10,542	-99,504	-15	-20	5
149,353	-397,212	-247,859	-38	-39	1
-246,812	-662,117	-908,929	-140	-139	-1
216,709	-453,835	-237,126	-37	-20	-17
120,028	-112,827	7,201	1	11	-10
52,184	-7,778	44,406	7	5	2
-15,884	-20,336	-36,220	-6	-7	1
-119,158	-54,046	-173,204	-27	-24	-3
37,995	-148,821	-110,826	-17	-35	18
-106,144	-26,247	-132,391	-20	-17	-3
-33,265	-23,493	-56,758	-9	-13	4
-94,347	-1,509,499	-1,603,846	-248	-239	-9
55,006	-1,906,711	-1,851,705	-286	-278	-8

-963,468	-102,744
-1,815,285	-73,261
-306,538	9,808
-786,163	212,405
-734,516	119,821
-4,605,970	166,029
-4,682,996	298,061
4,498,000	0
\$-184,996	\$298,061

-1,066,212	-208,716	-1,274,928	-197	-178	-19
-1,888,546	-103,603	-1,992,149	-308	-295	-13
-296,730	-5,889	-302,619	-47	-48	1
-573,758	-71,573	-645,331	-100	-131	31
-614,695	-292,507	-907,202	-140	-154	14
-4,439,941	-682,288	-5,122,229	-792	-806	14
-4,384,935	-2,589,000	-6,973,935	-1,078	-1,084	6
4,498,000	-2,589,000	7,087,000	1,095	1,055	40
\$113,065	\$0	\$113,065	\$17	\$-29	\$46

OPERATING FUND

2012 HIGHLIGHTS VERSUS BUDGET

GREEN=FAVORABLE VARIANCE TO BUDGET

MAGENTA=UNFAVORABLE VARIANCE TO BUDGET

PUBLIC AMENITIES

NOR (\$94,000) | -466,000 126%

Revenue off \$1,131,000 16% | Costs savings of \$665,000 10%

DOWNHILL SKI AREA

NOR \$217,000 | -297,000 58%

Minimal snow in winter 2011/2012, with delayed opening of January 24, 2012. Good spring and December results. Effective cost controls based on drop in volume and revenues.



Visits off 43%

Revenue off \$847,000 31%

Costs savings of \$550,000 24%

CROSS COUNTRY SKI CTR

NOR \$120,000 | -85,000 41%

Minimal snow in winter 2011/2012, with delayed opening of January 24, 2012. Good spring and December results. Effective cost controls based on drop in volume and revenues.



Visits off 32%

Revenue off \$199,000 26%

Costs savings of \$114,000 20%

SNOWPLAY AREA

NOR \$52,000 | -20,000 28%

Minimal snow in winter 2011/2012, with a delayed opening of January 24, 2012. Good spring and December results. Effective cost controls based on drop in volume and revenues.



Visits off 30%

Revenue off \$44,000 32%

Costs savings of \$24,000 36%

NOR = Net Operating Results. NOR is defined as the net result of operating revenues less cost of goods sold and operating payroll and expenses. NOR does not include any allocated overhead or capital costs.

GOLF

NOR (\$247,000) | -96,000 63%

Delayed opening due to thin snow coverage resulting course damage, slow start with a strong finish to the season.



Rounds off 4%

Revenue off \$127,000 11%

Costs savings of \$31,000 2%

EQUESTRIAN

NOR (\$119,000) | -25,000 27%

Missed volume expectations with restructure of operations.



Visits off 18%

Revenue off \$61,000 39%

Costs savings of \$36,000 14%

CAMPGROUND

NOR (\$16,000) | -3,000 25%



Visits up 6%

Revenue off \$1,000 3%

Costs over Budget \$2,000 3%

SUMMER FOOD & BEV

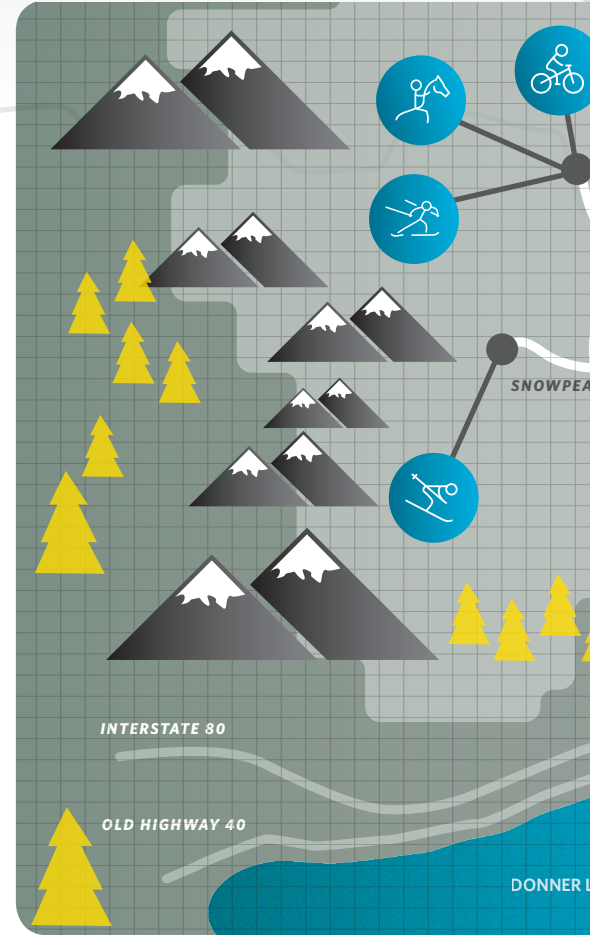
NOR (\$106,000) | -26,000 32%

Includes the Lodge's summer lunch service, golf snack bar and bar cart, and Trout Creek's poolside Marco Polo Grill. Shortened season due to golf's delayed opening, pool volume improving, margins balancing service levels.



Revenue off \$3,000 2%

Costs over Budget \$23,000 10%



PIZZA ON THE HILL

NOR (\$33,000) | +5,000 13%

Beat NOR Budget. Continuing to improve on margins, quality, service levels and volume. NOR improved over 2011 by \$6,000 (70%).



Revenue off \$22,000 8%

Costs savings of \$27,000 8%

THE LODGE

NOR \$38,000 | +81,000 188%

RECORD RESULTS, POSITIVE NOR!

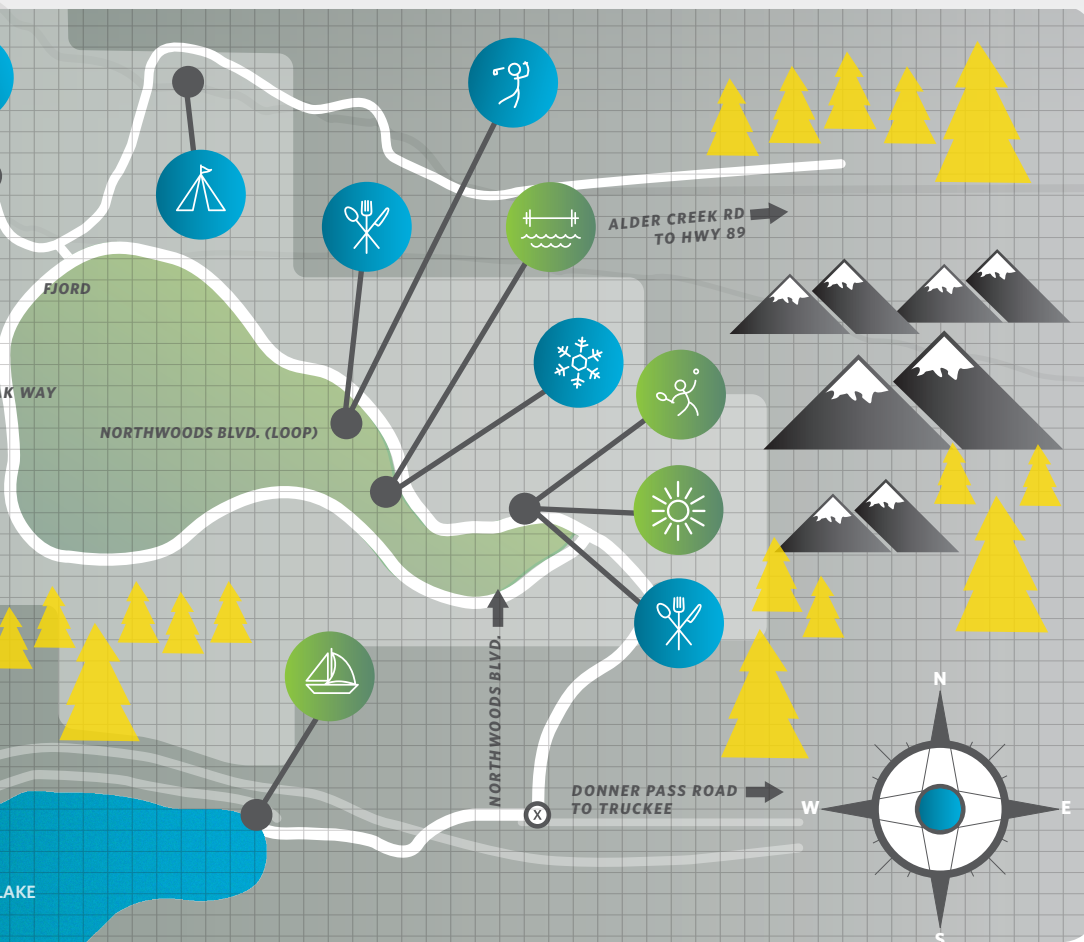
NOR improved over 2011 by \$62,000.



Visits of 44,076 up 10% to budget up 7% to previous year.

Revenue of \$1.62 million, up \$172,000 12% (up 11% to previous year).

Costs of \$1.58 million, up \$91,000 6% (up 5% from last year).



PRIVATE AMENITIES

NOR \$149,000 | +79,000 113%

Revenue up \$81,000 4%
Costs up \$2,000 0%

TROUT CREEK RECREATION CENTER AND AQUATICS

NOR \$17,000 | +22,000 455%

Strong visitation and fitness class participation. Aquatics programs continued improvement in volume and margins.



Visits up 4%
Revenue up 1%

BEACH CLUB MARINA

NOR \$210,000 | +37,000 22%

Strong member and guest visitation (up 5%) and rental revenues.



Revenues up 12%
Costs up 6%

TENNIS CENTER

NOR \$11,000 | +13,000 629%

Increased proportion of recreation fee allocation due to visitation increase.



Visits up 19%
Revenues up 4%
Costs down 2%

DAY CAMPS AND RECREATION PROGRAMS

NOR (\$89,000) | +7,000 7%



Day Camps: \$115,000 in revenues, up 5% to Budget and NOR of \$24,000 was favorable \$8,000 to Budget. Strong program participation and effective cost reductions.

Recreation: Sam Bush Concert, lower revenues and costs than Budget, net off Budget \$10,000. Member events and bike rentals net favorable to Budget.

HOA AND AMENITY SUPPORT SERVICES

NOR (\$4,440,000) | +500,000 10%

Revenue up \$5,000 1%
Costs savings of \$495,000 9%

GENERAL

NOR (\$1,066,000) | +150,000 12%

General HOA costs and communications. Cost savings due to position vacancies and post-January/February cost recovery initiative.

MANAGEMENT, ACCOUNTING, PERSONNEL, AND IT

NOR (\$1,888,000) | +18,000 1%

Post-January/February cost recovery initiative savings offset by company-wide cost item overruns in various categories.

ARCHITECTURAL STANDARDS AND MEMBER SERVICES

NOR (\$297,000) | +34,000 10%

Post-January/February cost recovery initiative, cost savings in various categories and position vacancies.

MAINTENANCE

NOR (\$615,000) | +72,000 11%

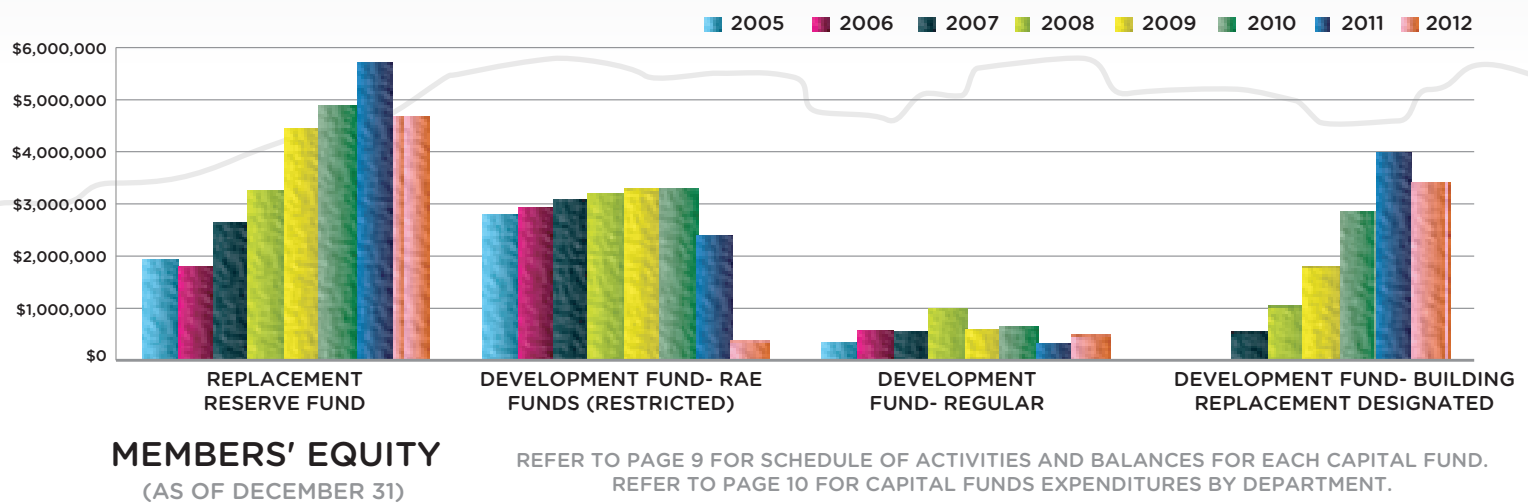
Common area property, buildings, and vehicle maintenance. Cost savings due to re-organization, mild weather impacts, post-January/February cost recovery initiative, and position vacancies.

FORESTRY

NOR (\$574,000) | +226,000 28%

Trails, forest health, defensible and open space management. Cost savings due to post-January/February cost recovery initiative and reduced availability of grant work.

KEY FUND BALANCES RESERVED FOR FUTURE CAPITAL NEEDS



19% FUNDED

Replacement Reserve funds as of 12/31/2012 ratio to Replacement Reserve Component total costs on 100% Funded Method calculation.

\$3.7 MILLION | 2012 EXPENDITURES REPLACEMENT RESERVE FUND

- **\$604,000 Downhill Ski** (paving, signage, rental equipment and snowcat.)
- **\$450,000 Forestry building** (replacement reserve portion.)
- **\$334,000 Cross Country Ski Center** (rental equipment signage, and snowcat.)
- **\$326,000 General** (monument and directional signage.)
- **\$278,000 Golf Course** (equipment, cart paths and carts lease.)
- **\$243,000 Maintenance building** remodel (replace reserve portion.)
- **\$202,000 Trout Creek** (equipment, signage and building components.)
- **\$184,000 MIS** (computer, network, phone hardware and software.)
- **\$184,000 Tennis Center** (courts resurfacing, fencing and signage.)
- **\$183,000 Maintenance** (dump and water truck replacements.)

The Replacement Reserve Fund is used to account for financial resources designated for the repair, restoration, replacement, or maintenance of, or litigation involving repair, restoration, replacement or maintenance of, major components which the association is obligated by state law and sound business practices to repair, restore, replace or maintain. A 30-year reserve funding and expenditure plan is produced every three years, and updated annually, to schedule and analyze the funding and expenditure needs.

Over 1,400 individual items are tracked in this plan, with a current replacement value of over \$36 million. A complete study and plan were performed in 2010, and updated in 2012.

\$4.2 MILLION | 2012 EXPENDITURES DEVELOPMENT FUND

- \$2,057,000 Euer Valley land purchase (RAE funds)
- \$885,000 Forestry building and land purchase
- \$375,000 Maintenance building remodel costs
- \$247,000 The Lodge expansion and storage building
- \$186,000 Cross Country Ski Center building replacement
- \$141,000 Downhill Ski parking lot expansion
- \$73,000 Snowplay improvements
- \$68,000 Beach Club Marina improvements
- \$38,000 Trails expansion

The Development Fund was established to accumulate funds for use in the development of and additions to facilities identified by the board as necessary due to new capacity requirements of the Association, or changing needs of the community. The Development Fund also accounts for the Board-designated funds accumulated for the specific purpose of replacing existing buildings. As well as the restricted Recreational Amenities Expansion

Funds, referred to as the RAE Funds. In 2012, \$2,057,000 of RAE funds were expended to acquire land in Euer Valley. In 2011, \$777,000 of RAE funds were expended to acquire land in Euer Valley.

\$159,000 | 2012 EXPENDITURES NEW MACHINERY AND EQUIP. FUND

- \$36,000 Recreation equipment
- \$11,000 Bocce ball courts expansion
- \$13,000 Sand cleaner
- \$25,000 IT software and hardware
- \$24,000 Marina equipment
- \$10,000 Trout Creek wibit™ aqua track
- \$9,000 Downhill Ski equipment

The New Machinery and Equipment Fund is used to account for financial resources designated for the acquisition of new assets identified as necessary for the association to be more efficient in operations or to provide new services to the membership.

PROPERTY FUND

The Property Fund is used to account for the Association's investment in its fixed assets. Capital additions to fixed assets totaled \$7,590,000 (in 2011 \$2,973,000). Depreciation expense for the year totaled \$2,156,000 (in 2011 \$2,245,000). Total gross fixed asset value of \$56.6 million equates to \$8,740 per owner and net book value of fixed assets and construction in progress of \$33.0 million equates to \$5,099 per owner (an increase of 20% over 2011).

CAPITAL FUNDS SUMMARY

YEAR ENDING DECEMBER 31, 2012

	2012 ACTUAL	2012 BUDGET	2012 ACTUAL VS 2012 BUDGET	2011 ACTUAL	2012 ACTUAL VS 2011 ACTUAL
REPLACEMENT RESERVE FUND					
BEGINNING FUND BALANCE	<u>\$5,702,748</u>	<u>\$5,300,000</u>	<u>\$402,748</u>	<u>\$4,867,305</u>	<u>\$835,443</u>
ASSESSMENT CONTRIBUTION	2,589,000	2,589,000	-	2,330,000	259,000
INTEREST REVENUE	17,785	10,000	7,785	17,572	213
OTHER REVENUE AND EXPENSE NET	36,197	5,000	31,197	19,359	16,838
MAJOR MAINTENANCE EXPENSES	(418,852)	(379,000)	(39,852)	(337,967)	(80,885)
EXPENDITURES FOR CAPITAL ADDITIONS	<u>(3,297,062)</u>	<u>(3,614,000)</u>	<u>316,938</u>	<u>(1,193,521)</u>	<u>(2,103,541)</u>
CHANGE IN FUND BALANCE	(1,072,932)	(1,389,000)	316,068	853,443	(1,908,375)
ENDING FUND BALANCE	4,629,816	3,911,000	718,816	5,702,748	1,072,932
NEW MACHINERY & EQUIPMENT FUND					
BEGINNING FUND BALANCE	<u>85,028</u>	<u>69,000</u>	<u>16,028</u>	<u>46,706</u>	<u>38,322</u>
ASSESSMENT CONTRIBUTION	194,000	194,000	-	162,000	32,000
INTEREST REVENUE	6	-	6	30	(24)
MAJOR MAINTENANCE EXPENSES	-	-	-	-	-
EXPENDITURES FOR CAPITAL ADDITIONS	<u>(159,056)</u>	<u>(197,000)</u>	<u>37,944</u>	<u>(123,708)</u>	<u>(35,348)</u>
CHANGE IN FUND BALANCE	34,950	(3,000)	37,950	38,322	(3,372)
ENDING FUND BALANCE	119,978	66,000	53,978	85,028	34,950
DEVELOPMENT FUND (INCLUDES RAE RESTRICTED, DESIGNATED BUILDING REPLACEMENT, AND REGULAR)					
BEGINNING FUND BALANCE	<u>6,710,329</u>	<u>4,114,000</u>	<u>2,596,329</u>	<u>6,722,923</u>	<u>(12,594)</u>
ASSESSMENT CONTRIBUTION	1,618,000	1,618,000	-	1,618,000	-
INTEREST REVENUE	7,406	16,000	(8,594)	40,448	(33,042)
OPERATING FUND TRANSFER IN	-	-	-	100,000	(100,000)
OTHER REVENUE & EXPENSE NET	(8,795)	(7,000)	(1,795)	(12,914)	4,119
FUND EXPENSES FOR CAPITAL ADDITIONS	(25,943)	-	(25,943)	(102,617)	76,674
EXPENDITURES FOR CAPITAL ADDITIONS	<u>(4,133,758)</u>	<u>(2,110,000)</u>	<u>(2,023,758)</u>	<u>(1,655,511)</u>	<u>(2,478,247)</u>
CHANGE IN FUND BALANCE	(2,543,090)	(483,000)	(2,060,090)	(12,594)	(2,530,496)
ENDING FUND BALANCE A)	4,167,239	3,631,000	536,239	6,710,329	2,543,090
CAPITAL FUND TOTALS (SEE NEXT PAGE FOR BREAKDOWN BY DEPARTMENT)					
MAJOR MAINTENANCE/FUND EXPENSES	(444,795)	(379,000)	(39,852)	(440,584)	(80,885)
EXPENDITURES FOR CAPITAL ADDITIONS	<u>(7,589,876)</u>	<u>(5,921,000)</u>	<u>(1,668,876)</u>	<u>(2,972,740)</u>	<u>(4,617,136)</u>
TOTAL	\$(8,034,671)	\$(6,300,000)	\$(1,708,728)	\$(3,413,324)	\$(4,621,347)

A) DEVELOPMENT FUND: Recreational Amenity Expansion (RAE) amounts are restricted funds, refer to Development Fund discussion for further information.

12/31/2012 Balance Components: \$338,571 RAE Restricted, \$3,378,416 Designated Building Replacement, and \$450,252 Regular.

12/31/2011 Balance Components: \$2,394,753 RAE Restricted, \$3,993,123 Designated Building Replacement, and \$322,453 Regular.

The variance between Actual and Budget capital expenditures is primarily driven by the timing of projects between years.

The Board has a fiduciary responsibility (by law) to do what is best for the Association both now and for the future. Current owners have the responsibility to pay for the depreciation of Association assets, not to defer the burden to future owners. Properly maintaining our assets protects owners' property values.

CAPITAL FUNDS EXPENDITURES BY DEPARTMENT

YEAR ENDING DECEMBER 31, 2012

	REPLACEMENT RESERVE FUND		NEW MACHINERY AND EQUIPMENT FUND		DEVELOPMENT FUND		CAPITAL FUNDS TOTAL	
	CAPITAL ADDITIONS	MAJOR MAINTENANCE	CAPITAL ADDITIONS	MAJOR MAINTENANCE	CAPITAL ADDITIONS	MAJOR MAINTENANCE	CAPITAL ADDITIONS	MAJOR MAINTENANCE
PRIVATE AMENITIES								
TROUT CREEK REC CENTER	\$181,855	\$20,520	\$13,058	\$ -	\$ -	\$ -	\$194,913	\$20,520
BEACH CLUB MARINA	93,776	11,602	37,087	-	68,204	-	199,067	11,602
TENNIS CENTER	167,833	16,115	-	-	20,189	-	188,022	16,115
NORTHWOODS POOL / AQUATICS	12,275	-	-	-	-	-	12,275	-
CAMPS AND REC PROGRAMS	25,469	-	47,217	-	10,335	-	83,021	-
TOTAL PRIVATE AMENITIES	481,208	48,237	97,362	-	98,728	-	677,298	48,237
PUBLIC AMENITIES								
GOLF	124,855	153,482	-	-	-	-	124,855	153,482
DOWNHILL SKI AREA	(d) 552,875	50,831	9,482	-	144,992	-	707,349	50,831
CROSS COUNTRY SKI CENTER	(e) 333,052	1,010	6,234	-	(a) 2,243,176	-	2,582,462	1,010
CAMPGROUND	53,363	-	-	-	-	-	53,363	-
EQUESTRIAN	1,600	-	-	-	-	-	1,600	-
THE LODGE	75,176	33,978	3,140	-	(i) 246,919	-	325,235	33,978
PIZZA ON THE HILL	1,524	1,455	4,829	-	-	-	6,353	1,455
SNOWPLAY	13,513	-	2,373	-	73,217	-	89,103	-
TOTAL PUBLIC AMENITIES	1,155,958	240,756	26,058	-	2,708,304	-	3,890,320	240,756
TOTAL AMENITIES	1,637,166	288,993	123,420	-	2,807,032	-	4,567,618	288,993
HOMEOWNERS ASSOCIATION								
GENERAL	(f) 344,379	8,085	1,654	-	-	656	346,033	8,741
MARKETING & COMMUNICATION	18,396	1,512	-	-	-	-	18,396	1,512
FACILITY ADMINISTRATION	33,857	3,200	-	-	-	-	33,857	3,200
ADMINISTRATION	90,942	57,791	1,652	-	2,185	-	94,329	51,791
MANAGEMENT INFORMATION SYSTEMS	170,029	14,291	29,109	-	26,121	-	225,259	14,291
ACCOUNTING	5,996	-	-	-	-	-	5,996	-
HUMAN RESOURCES	-	-	-	-	-	-	-	-
ARCHITECTURAL STANDARDS OFFICE	-	8,758	-	-	-	-	-	8,758
MEMBER SERVICES	1,534	-	-	-	-	-	1,534	-
FORESTRY	(c) 531,858	-	-	-	(b) 923,573	25,287	1,455,431	25,287
MAINTENANCE	(g) 463,355	42,222	3,221	-	(h) 374,847	-	841,423	42,222
TOTAL HOMEOWNERS ASSOC	1,659,896	129,859	35,636	-	1,326,726	25,943	3,022,258	155,802
TOTAL	\$3,297,062	\$418,852	\$159,056	\$-	\$4,133,758	\$25,943	\$7,589,876	\$444,795

(a) Includes Euer Valley land (482 acres) purchase, with Recreation Amenity Expansion Funds of \$2.1 million

(b) Includes Forestry building / land (20 acres) purchase \$885,000

(c) Includes Forestry building purchase \$450,000 and trails improvements \$67,000

(d) Includes grooming snowcat replacement \$290,000

(e) Includes grooming snowcat replacement \$297,000

(f) Includes monument and directional signage \$335,000

(g) Includes maintenance building remodel \$243,000 and water truck replacement \$73,000

(h) Maintenance building remodel \$375,000

(i) The Lodge storage building and Pub, deck, and pro shop expansion (construction in progress at year-end) \$247,000

STATEMENT OF LEGAL COMPLIANCE

A number of state laws and provisions of its own Governing Documents dictate how Tahoe Donner Association is to manage its financial affairs. Financial reporting, what books and records are to be maintained, how operating and capital needs are determined and funded, how budgets are established, and how member assessments are determined and collected are generally the areas regulated in the financial arena. These regulations can be found in the Association's Covenants and Restrictions ("C&Rs") and Bylaws, as well as the Civil Code and the Corporations Code. After a review of these regulations and our practices, the Association Counsel has determined that the Association is in substantial compliance with these requirements.

INDEPENDENT AUDITOR'S REPORT

The independent auditor's report, prepared by Gilbert Associates, and associated financial statements are pages 11 to 19 of this Annual Report.

INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
TAHOE DONNER ASSOCIATION
TRUCKEE, CALIFORNIA

We have audited the accompanying financial statements of Tahoe Donner Association (Association), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in members' equity, and of cash flows for the years then ended.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tahoe Donner Association as of December 31, 2012 and 2011, and the changes in members' equity and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by generally accepted accounting principles, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

GILBERT ASSOCIATES, INC.
SACRAMENTO, CALIFORNIA
MARCH 18, 2013

TAHOE DONNER ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY, DECEMBER 31, 2012 AND 2011

	OPERATIONS		
	Amenities	Homeowners' Association	Total Operating Fund
OPERATING REVENUES:			
Access and use fees	\$ 3,304,043		\$ 3,304,043
Retail sales	2,767,519		2,767,519
Lessons and rental revenue	1,459,620		1,459,620
Other revenues	169,943	\$ 494,633	664,576
Interest income		9,272	9,272
Gross operating revenues	7,701,125	503,905	8,205,030
Cost of goods sold	(1,024,717)		(1,024,717)
Net operating revenues	6,676,408	503,905	7,180,313
OPERATING EXPENSES:			
Salaries and wages	3,707,568	2,957,441	6,665,009
Payroll taxes and employee benefits	920,628	758,420	1,679,048
Supplies and maintenance	849,632	192,871	1,042,503
Utilities	551,426	208,408	759,834
Insurance	186,014	119,829	305,843
Other employee expenses	78,096	108,493	186,589
Income tax benefit		(33,176)	(33,176)
Other expenses	328,038	631,560	959,598
Total operating expenses	6,621,402	4,943,846	11,565,248
NET OPERATING INCOME (LOSS)	55,006	(4,439,941)	(4,384,935)
CAPITAL ACTIVITIES:			
Capital additions and transfers			
Gain (loss) on sale or disposal of assets			
Fund expenses			
Depreciation expense			
Total capital activities			
ASSESSMENTS:			
Assessment revenues		4,498,000	4,498,000
INCREASE (DECREASE) IN MEMBERS' EQUITY	\$ 55,006	\$ 58,059	113,065
TRANSFERS BETWEEN FUNDS			
MEMBERS' EQUITY, December 31, 2011			522,602
MEMBERS' EQUITY, December 31, 2012			\$ 635,667

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

TAHOE DONNER ASSOCIATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY DECEMBER 31, 2012 AND 2011

CAPITAL				TOTALS	
Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2012	Total 2011
				\$ 3,304,043	\$ 3,367,841
				2,767,519	2,607,243
				1,459,620	1,585,438
				664,576	702,390
				34,469	72,379
\$ 17,785	\$ 6	\$ 7,406		8,230,227	8,335,291
17,785	6	7,406		(1,024,717)	(989,389)
17,785	6	7,406		7,205,510	7,345,902
				6,665,009	6,577,178
				1,679,048	1,611,224
				1,042,503	1,558,476
				759,834	758,121
				305,843	306,333
				186,589	218,854
				(33,176)	(23,296)
12,934		8,795		981,327	996,630
12,934		8,795		11,586,977	12,003,520
4,851	6	(1,389)		(4,381,467)	(4,657,618)
(3,297,062)	(159,056)	(4,133,758)	\$ 7,589,876		
49,131			(5,939)	43,192	38,498
(418,852)		(25,943)		(444,795)	(440,584)
			(2,156,221)	(2,156,221)	(2,244,985)
(3,666,783)	(159,056)	(4,159,701)	5,427,716	(2,557,824)	(2,647,071)
2,589,000	194,000	1,618,000		8,899,000	8,608,000
(1,072,932)	34,950	(2,543,090)	5,427,716	1,959,709	1,303,311
5,702,748	85,028	6,710,329	27,570,274	40,590,981	39,287,670
\$ 4,629,816	\$ 119,978	\$ 4,167,239	\$ 32,997,990	\$ 42,550,690	\$ 40,590,981

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

TAHOE DONNER ASSOCIATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2012	Total 2011
ASSETS							
Cash	\$ 1,583,023					\$ 1,583,023	\$ 1,014,083
Cash, designated and restricted	90,629	\$ 131,902	\$ 183,045	\$ 381,808		787,384	453,741
Investments	535,090					535,090	629,975
Investments, designated and restricted	1,249,950	5,248,868		4,498,921		10,997,739	14,600,141
Assessments and other member receivables, net of allowance for doubtful accounts of \$98,440 in 2012 and \$97,440 in 2011	293,946					293,946	292,325
Other receivables	51,981	12,517		9,084		73,582	44,851
Inventory	237,474					237,474	268,494
Prepaid expenses and other assets	254,042					254,042	260,948
Due from (to) other funds	(69,732)	224,042	1,830	(156,140)			
Net property and equipment					\$ 32,997,990	32,997,990	27,570,274
TOTAL ASSETS	<u>\$ 4,226,403</u>	<u>\$ 5,617,329</u>	<u>\$ 184,875</u>	<u>\$ 4,733,673</u>	<u>\$ 32,997,990</u>	<u>\$ 47,760,270</u>	<u>\$ 45,134,832</u>
LIABILITIES AND MEMBERS' EQUITY							
Accounts payable	\$ 259,265	\$ 114,687	\$ 4,563	\$ 63,654		\$ 442,169	\$ 331,232
Deferred revenues	2,429,109	872,826	60,334	502,780		3,865,049	3,591,002
Deposits from members	96,925					96,925	119,735
Accrued liabilities	805,437					805,437	501,882
TOTAL LIABILITIES	3,590,736	987,513	64,897	566,434		5,209,580	4,543,851
MEMBERS' EQUITY	<u>635,667</u>	<u>4,629,816</u>	<u>119,978</u>	<u>4,167,239</u>	<u>\$ 32,997,990</u>	<u>42,550,690</u>	<u>40,590,981</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 4,226,403</u>	<u>\$ 5,617,329</u>	<u>\$ 184,875</u>	<u>\$ 4,733,673</u>	<u>\$ 32,997,990</u>	<u>\$ 47,760,270</u>	<u>\$ 45,134,832</u>

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

TAHOE DONNER ASSOCIATION

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2012	Total 2011
CASH FLOWS FROM OPERATING ACTIVITIES:							
Increase (decrease) in Members' Equity	\$ 113,065	\$ (1,072,932)	\$ 34,950	\$ (2,543,090)	\$ 5,427,716	\$ 1,959,709	\$ 1,303,311
Reconciliation to net cash provided by operating activities:							
Fund transfer							
Depreciation expense					2,156,221	2,156,221	2,244,985
Capital additions and transfers		3,297,062	159,056	4,133,758	(7,589,876)		
(Gain) loss on sale or disposal of property and equipment		(49,131)			5,939	(43,192)	(38,498)
Changes in:							
Assessments receivable	(1,621)					(1,621)	(15,616)
Other receivables	(19,666)	(6,063)		(3,002)		(28,731)	4,549
Inventory	31,020					31,020	(19,439)
Prepaid expenses and other assets	6,906					6,906	(11,355)
Due from (to) other funds	87,640	(220,731)	(2,446)	135,537			
Accounts payable	78,441	(19,760)	(2,859)	55,115		110,937	(47,294)
Deferred revenues	220,160	59,854	(639)	(5,328)		274,047	(24,620)
Deposits from members	(22,810)					(22,810)	22,770
Accrued liabilities	303,555					303,555	(297,620)
Net cash provided by operating activities	796,690	1,988,299	188,062	1,772,990		4,746,041	3,121,173
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of property and equipment		(3,297,062)	(159,056)	(4,133,758)		(7,589,876)	(2,972,740)
Proceeds from sale of property and equipment		49,131				49,131	39,117
Purchases of investments	(4,100,058)	(6,998,908)		(7,998,372)		(19,097,338)	(23,462,417)
Proceeds from sale of investments	3,844,943	8,250,000	100,000	10,599,682		22,794,625	22,600,000
Transfers between funds							
Net cash used by investing activities	(255,115)	(1,996,839)	(59,056)	(1,532,448)		(3,843,458)	(3,796,040)
NET INCREASE (DECREASE) IN CASH	541,575	(8,540)	129,006	240,542		902,583	(674,867)
CASH, Beginning of Year	1,132,077	140,442	54,039	141,266		1,467,824	2,142,691
CASH, End of Year	\$ 1,673,652	\$ 131,902	\$ 183,045	\$ 381,808	\$	\$ 2,370,407	\$ 1,467,824
OTHER CASH FLOW INFORMATION:							
Income taxes refunded (paid)	\$ 27,215	\$ (7,776)	\$	\$ (1,566)	\$	\$ 17,873	\$ 9,668

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

NOTES TO FINANCIAL STATEMENTS

1. OPERATIONS

Tahoe Donner Association (Association) is a California nonprofit mutual benefit corporation. The Association's members own the 6,471 membership properties within the Tahoe Donner subdivision in Truckee, California. The Association was organized to provide management services and maintenance of certain common areas owned by the Association. A significant portion of revenue is derived from the assessment of member dues.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

OPERATING FUND – Used to account for financial resources available for the general operations of the Association.

REPLACEMENT RESERVE FUND – Used to account for financial resources designated for the repair, restoration, replacement or maintenance of, or litigation involving repair, restoration, replacement or maintenance of, major components which the Association is obligated to repair, restore, replace or maintain and for which the replacement reserve fund was established.

NEW MACHINERY AND EQUIPMENT FUND – Used to account for financial resources designated for the purchase of new machinery, equipment, furnishings and fixtures.

DEVELOPMENT FUND – Used to account for financial resources designated for use in the acquisition and enhancement of facilities, equipment and other resources. Restricted funds include proceeds from land received by the Association in settlement of claims against the developer, Dart Resorts, Inc. (Dart) which can only be expended to fund the expansion of recreational facilities per terms of the settlement of claims against the developer.

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

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

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

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

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

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

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

PROPERTY AND EQUIPMENT of the Association includes certain facilities and land contributed by Dart in prior years. These assets are reflected in the accounts at the developers' cost basis. Purchases are stated at cost. The Association capitalizes all expenditures for property and equipment in excess of \$2,000. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 3 to 60 years. These assets are recorded directly in the property fund. Approximately 3,000 acres of undeveloped non-common area real property owned by the Association is controlled by the Association's declaration of covenants and restrictions, and bylaws.

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

DEFERRED REVENUE represents funds received for assessments and recreation passes during the current year, which are applicable to the following year.

INCOME TAXES – The Association is generally exempt from federal income taxes under Internal Revenue Code 501(c)(4). For California

NOTES TO FINANCIAL STATEMENTS

purposes, the Association is taxed as a regular corporation. As a membership organization, the Association is generally taxed only on non-member income, such as advertising revenue and golf and ski ticket sales to the public, at regular federal corporate tax rates. The Association has implemented the amended accounting principles related to the accounting for uncertainty in income taxes and has determined there is no material impact on the financial statements.

USE OF ESTIMATES – The preparation of financial statements in conformity with accounting principles generally accepted in the

United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATION – Certain 2011 amounts have been reclassified to conform with 2012 financial statement presentation.

SUBSEQUENT EVENTS have been evaluated through March 18, 2013, the date the financial statements were issued.

3. CASH AND INVESTMENTS

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

	2012	2011
Replacement reserve fund-designated	\$5,380,770	\$6,640,402
Development fund-restricted (RAE Fund)	381,808	2,400,087
Development fund-designated	4,498,921	4,841,410
New machinery & equip. fund-undesignated/unrestricted		100,000
New machinery & equip. fund-designated	183,045	54,039
Operating fund-undesignated & unrestricted	2,118,113	1,544,058
Operating fund-designated	1,249,950	999,950
Operating fund-Architectural standards deposits-restricted (note 5)	90,629	117,994
TOTAL	\$13,903,236	\$16,697,940

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

Restricted funds in the development fund relate to the proceeds from the sale of a parcel of land which can only be expended to fund the expansion of recreational facilities per terms of the settlement of claims against the developer, Dart Resorts, Inc. These restricted funds are internally known as the Recreational Amenities Expansion (RAE) Fund.

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

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

Investments at December 31, 2012 mature as follows:

INVESTMENT	WITHIN 1 YEAR	1 TO 2 YEARS	TOTAL
U.S. TREASURY	\$3,997,571		\$3,997,571
CERTIFICATES OF DEPOSIT	\$7,285,258	\$250,000	\$7,535,258
TOTAL	\$11,282,829	\$250,000	\$11,532,829

NOTES TO FINANCIAL STATEMENTS

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2012	2011
Buildings	\$22,921,978	\$21,187,682
Fixtures and facility improvements	12,820,420	11,427,366
Equipment	11,276,609	9,812,699
Land and land improvements	8,666,697	6,102,154
Furnishings	871,862	835,072
TOTAL	56,557,566	49,364,973
Less accumulated depreciation	(24,192,466)	(22,485,408)
	32,365,100	26,879,565
Construction in progress	632,890	690,709
TOTAL	\$32,997,990	\$27,570,274

5. DEPOSITS FROM MEMBERS

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

6. REPLACEMENT RESERVE FUND

The Association's policy is to maintain replacement funding levels sufficient to pay for capital replacements, refurbishments and repairs. Replacement funding levels, as determined by a study updated in 2012, are forecast on a 30-year basis with annual updates to replacement schedules, as they become known. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. If additional funds are needed, the Association has the right, subject to any necessary member approval, to increase regular dues, to levy special assessments, or modify and adjust the scheduled major repairs and replacements as necessary.

7. RETIREMENT PLANS

The Association maintains a salary savings plan for all eligible employees. The Association matches 50% of the first 6% of the participant's contribution. Matching contributions are 20% vested after the third year of service and vest at the rate of 20% per year thereafter. Matching contributions expense was \$67,289 and \$65,916 for 2012 and 2011, respectively.

The Association started two defined contribution plans on September 15, 2012, which qualify under Section 457(b) and Section 457(f) of the Internal Revenue Code, respectively (the 457 Plans). The 457 Plans allow for additional Association contributions and salary deferrals subject to limitations for eligible executive employees. The 457 Plans funds are held in trust accounts and contributions are deferred compensation until certain future date conditions are met. For the year ended December 31, 2012, the Association's contribution to the 457 Plans was \$7,175.

8. OPERATING LEASE OBLIGATIONS

The Association has non-cancelable operating leases for copiers, golf carts, land usage and computer equipment. Rental expense under all operating leases was \$140,646 and \$138,243 for 2012 and 2011, respectively. Future minimum lease payments under these leases are as follows:

Year ending December 31:

2013	\$28,242
2014	21,270
2015	11,642
2016	9,486
2017	7,252
THEREAFTER	34,512
TOTAL	\$112,404

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS | DECEMBER 31, 2012 (UNAUDITED)

In accordance with state law and sound business practices it is the policy of the Association to fund a reserve program that will adequately provide for repair and replacement of existing Association-owned assets. A 30-year reserve funding and expenditure plan is produced every three years, and updated annually, to schedule and analyze the funding needs. The Association updated its study in 2012 to estimate the remaining useful lives, the lives after replacement and the replacement costs of the components of common property. The estimates were based on estimates from consultants, management, contractors and historical costs. Estimated current replacement costs take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The Association does not designate the balance in the replacement reserve fund by component. The total available for major repairs and replacements at December 31, 2012, was \$4,630,000. The 2013 lot assessments include \$2,809,000 to be allocated to the replacement fund.

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

The following table is based on the study and presents significant information about the components of common property for which funds are being set aside.

COMPONENT GROUP	RANGE OF REMAINING LIVES (YEARS)	ESTIMATED LIFE AFTER REPLACEMENT (YEARS)	CURRENT REPLACEMENT COSTS
Trout Creek, Pools and Recreation	0-24	1-30	\$3,459,942
Beach Club Marina	0-14	1-30	1,041,471
Tennis complex	0-20	1-30	1,768,159
Downhill Ski Area	0-29	1-30	5,340,063
Cross Country Ski Center	0-22	1-30	1,261,429
Equestrian complex	0-24	1-30	496,212
Golf	0-23	1-30	8,840,421
Campground	0-16	1-30	637,299
The Lodge Restaurant & Pub	0-24	1-30	2,712,892
Pizza On the Hill	0-30	1-30	424,118
Administration/MIS	0-30	1-30	4,383,865
Forestry	0-30	1-30	2,531,828
General and building maintenance	0-30	1-30	2,260,981
Vehicle maintenance	0-21	1-30	1,114,908
TOTAL			\$ 36,273,588

See independent auditor's report on required supplementary information.

