

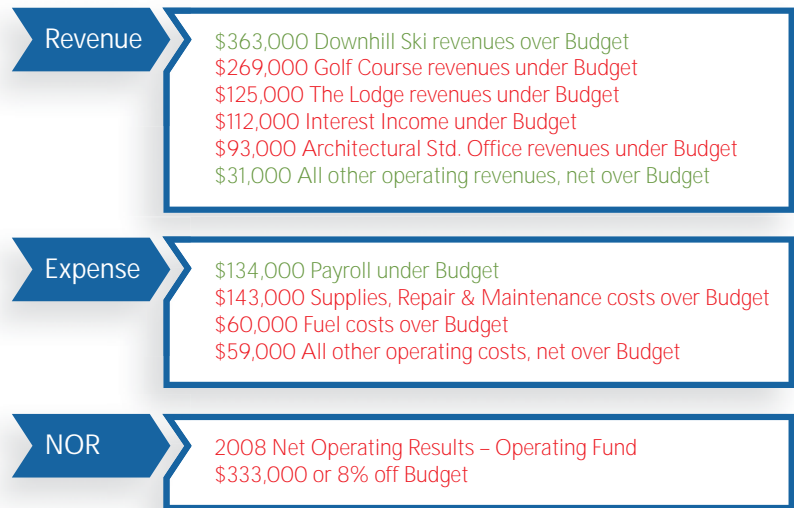
TAHOE DONNER

THE BEST PLACE TO LIVE & PLAY

2008 Annual Report

TAHOE DONNER





» **Dear Members,**

2008 financials contain mixed results, with key notes presented above. The current economic recession kicked in over the course of 2008, and certainly had some impact in our golf visitation numbers. However, overall your association has seen strong visitations at the majority of amenities. The association is proving to be a valued asset to our owners. The quality and variety of affordable recreation, as well as other activities the association offers are driving visitation at the association during challenging economic times. The purpose of this 2008 Annual Report is to provide members of Tahoe Donner Association a comprehensive report on 2008 financial results and communicate the 2008 Audited Financial Statements to all members. This report provides several at-a-glance references, charts and information. However, a full read can provide you with in-depth information regarding the financial activities of your association.

Tahoe Donner Association's consolidated Operating Fund Net Operating Result for 2008 was a loss of \$333,018, which represents an 8% variance to Budget. Amenity operations NOR loss of \$1.7 million was unfavorable to budget \$248,000 or 17% and HOA operations NOR loss of \$2.9 million was unfavorable to budget \$89,000 or 3%. The Operating Fund portion of Annual Assessment revenues of \$4.3 million was favorable to budget \$4,000 or less than 1%.

The balance of this report provides an analysis of the Operating Fund's results, as well as the financial results and position of all the funds of your association. Tahoe Donner Association continues to hold its position as one of the premier homeowners associations in the Greater North Lake Tahoe area, and with 6,472 units, one of the largest in California. The association maintains and operates a large selection of amenities for its members and guests, including a championship golf course, a downhill ski area popular with beginning skiers, a world-class cross country center, a private beach club marina, a private tennis center, a private fitness center with pools and spas, two restaurants, an RV campground, equestrian center, and over 1,300 acres of common area that include numerous hiking trails.

Management and the Board of Directors consistently monitor operational and financial results, and we are committed to both responsive and proactive management, balancing our service levels to volume and financial performance. Despite these best practices, several of our association's amenities are subject to weather volatility and, to a lesser extent, the current economic recession. For example, golf revenues are 20% of amenity operating budget revenue mix. The winter-only amenity revenues are 34% of mix (Downhill Ski 25%, Cross Country 8%, and Snow Play 1%).

2008 Annual Assessment

The annual assessment for 2008 consisted of the following fund contributions per member:

- \$661/57% Operating Fund
- \$331/29% Replacement Reserve Fund
- \$79/7% Development Fund – Building Repl. designated
- \$64/6% Development Fund – Regular designated
- \$17/1% New Machinery and Equipment Fund
- **\$1,152/100% Annual Assessment per unit for 2008**

For 2008, 57% of the annual assessment revenues support the operating fund's net operating loss budgeted and 43% of the annual assessment revenues support capital funds of the association. Total assessment revenue for 2008 of \$7,445,000 was \$4,000 or 0% favorable to budget and increased \$371,000 or 5% over prior year.

2008 Operating Fund Results Key Notes

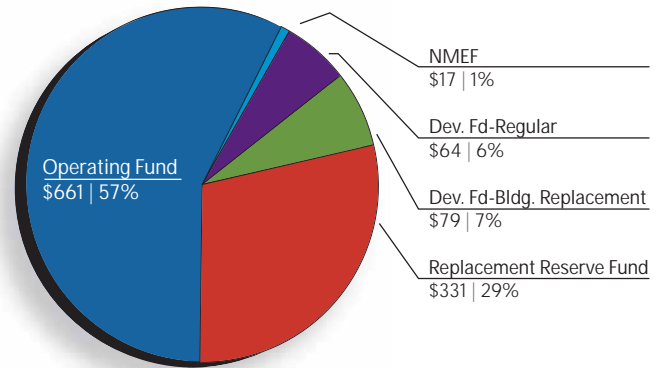
- \$7.9 million consolidated operating gross revenues
 - \$205,000/3% unfavorable to Budget 2008
 - \$749,000/11% favorable to Actual 2007
- \$4,609,000 consolidated net operating result loss, before assessment revenues:
 - \$337,000/8% unfavorable to Budget 2008
 - \$614,000/15% unfavorable to Actual 2007

2008 Operating Fund NOR before Assessment Revenues; versus Budget Variances Summary:

- \$244,000 / 118% favorable Downhill Ski NOR result
- (\$296,000) / -87% unfavorable Golf NOR result
- (\$77,000) / -22% unfavorable The Lodge/Summer F&B NOR result
- (\$53,000) / -15% unfavorable Public Amenities, other than above three
- (\$66,000) / -29% unfavorable Private Amenities NOR result
- (\$89,000) / -3% unfavorable HOA Services NOR result
- (\$337,000) unfavorable consolidated NOR loss variance to budget, before assessment revenues

Downhill Ski and Cross Country. Regional snowfall for the 1st quarter of 2008 was heavy early, and then quite dry the remainder of the season. The region's snowpack was 140% of average at the end of January, then tapered to 115% of average at the end of February, further declined to 88% of average at the end of March, and ended April at 67% of average. December had only one good storm, which was enough to open Downhill Ski, Cross Country, and Snow Play in time for the holidays, thin but enough. Despite this weather volatility, Downhill Ski had record visitation for the 2007/2008 season, and ended the calendar year 2008 with revenues \$363,000 or 19% favorable to budget and \$634,000 or 40% favorable to prior year. Cross Country revenues for 2008 were favorable 49,000 or 8% to budget and \$77,000 or 14% favorable to prior year.

Golf. Summer of 2008 experienced two factors which significantly impacted our golf operation. First, forest fires in the greater northern California region created smoky, poor air quality conditions for much of June and July. Second, the economic recession rapidly



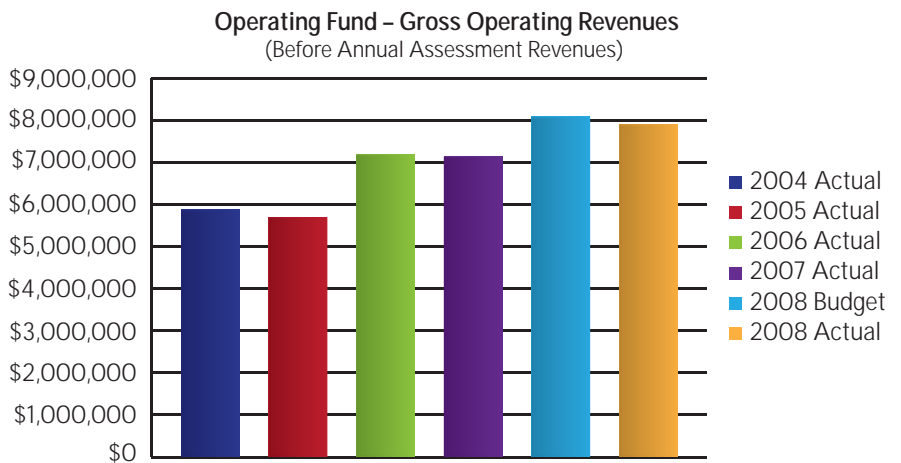
unfolded over the course of remainder of summer and into fall. Golf revenues of \$1.2m for 2008 were unfavorable \$269,000 or 18% to budget and \$64,000 or 5% unfavorable to prior year.

The Lodge. Including summer lunch and golf food service, The Lodge had revenues of \$1.3 million for 2008 which were unfavorable \$125,000 or 9% to budget and favorable \$103,000 or 9% to prior year. On a per unit basis, the revenues of \$1.3m equates to \$195 annually or \$16 per month average, impressive numbers for a homeowner association restaurant. Guest covers (excluding bar only and golf food service patrons) for 2008 of over 29,000 increased 9% over 2008. The Lodge, including summer lunch and golf food service, had a net operating result loss of \$419,000 which came in unfavorable to budget \$76,000/22%. However, this loss was an improvement to 2007 by \$142,000 or 25%. This improvement is particularly notable, considering the addition in 2008 of summer lunch table service, which despite being well received by some, did not see enough volume to turn a profit in 2008. Management remains focused on improving The Lodge with an active Lodge Task Force comprised of management and Board members. We continue to refine the operations, brand, and marketing strategies of The Lodge to ensure our restaurant's success and to provide a quality dining facility for association property owners and their guests.

Other Funds. During 2008, many of the association's assets were repaired or replaced as necessary to maintain the quality of the community. The Golf Course had certain degraded cart pathways repaved and aged mowing equipment was replaced. Trout Creek had extensive pool refurbishment and code compliance improvements, as well as new deck furniture, playground and fitness equipment. Downhill Ski had a well received cafeteria remodel, new windows, and new carpet. The Equestrian Center required soil remediation and other site improvement. As takes place each year, regular maintenance of various facilities including painting, staining and asphalt work was performed during 2008. Certain other assets were repaired or replaced as required for efficient operation of the facilities. These activities are discussed below in the individual capital funds. Also, a Capital Funds Expenditures Summary by Department chart is included within this report.

Tahoe Donner Association had a total of 6,472 property membership properties at year-end, an increase of 8 units from 2007 due to the development of multi-unit parcels. An area-wide slowdown in construction activity continued in 2008, with a reduction of new housing starts in Tahoe Donner during 2008. In 2008 the Architectural Standards Office processed 14 new house submittals, 14 addition submittals, 7 garage submittals and 14 miscellaneous plan submittals. New houses were down from 39 in 2007 and 51 in 2006. There were 841 vacant residential lots remaining as of December 31, 2008, which equates to an approximate 87% build-out. The Architectural Standards Office also had a major focus in 2008 on Fire Safe inspections and compliance, a joint effort with our Forestry department.

The association records and reports its financial activities through fund accounting, utilizing five funds – Operating Fund, Replacement Reserve Fund, New Machinery & Equipment Fund, Development Fund, and Property Fund. The annual results of activities in each fund are discussed below and in charts provided herein.



2008 OPERATING FUND FINANCIAL RESULTS

The Operating Fund is used to account for financial resources available for the general operations of the association. The revenues and expenses for daily operation of the amenities and association administration are recorded in this fund.

Highlights of the year include:

Revenues

Gross revenues, excluding assessment allocation, of \$7,864,000 were \$205,000/3% below budget and \$749,000/11% over last year.

- The Downhill Ski Area revenues of \$2.2 million were favorable to budget \$363,000/19% due primarily to record visitation for the winter 2007/2008 season, and strong visitation during December holidays. Our ski area is proving to have a strong market position, being affordable and the best place to begin, during the current economic recession.
- The Golf Course struggled in 2008 due to the smoke and economic conditions as discussed previously, generating revenues of \$1.2m, which were \$269k/18% off budget and off 2007 by \$64k/5%.
- The Lodge served over 29,000 dinners and lunches and achieved \$1.3 million in revenues, below budget by \$125,000 or 9%, however, over prior year by \$103,000 or 9%.
- The Cross Country Center revenues of \$637,000 managed to best budget by \$49,000 or 8% and were over 2007 by \$77,000 or 14%. Conditions and visitation at this world class

Nordic ski area were generally good, and a more affordable option than downhill skiing.

- The Private Amenities (Trout Creek Recreation Center, Northwoods Pool, Marina, and Tennis) combined for \$1.6 million in revenues, favorable to budget \$10,000 or 1% and favorable to prior year \$131k/9%. Tennis and Marina both showed solid increases in revenues and visitation. Trout Creek Recreation Center experienced a 3% increase in visitation over the prior year, however, revenues fell short of budget 2%, but were over the prior year 4%.
- Equestrian revenues of \$174,000 were off budget \$21,000 or 11% and favorable to prior year \$6,000 or 4%. The smoky conditions impacted this operation.
- Interest Income earned on operating funds declined \$112,000 or 53% to budget and 55% to prior year, directly impacted by the economic recession.
- Architectural Standards Office revenues from service fees and fines declined \$93,000 or 51% to budget and 40% to prior year due primarily to the slowdown in construction activities.
- The Forestry operation generated \$66,000 in revenues, received from federal and state grants that assisted in funding forest restoration and chipping of member yard waste.
- Assessment revenue in the Operating Fund totaled \$4.3 million for the year, exceeding budget by \$4,000, and up from \$4 million in 2007.

Operating Expenses

Total expenses of \$11.6 million were unfavorable to budget \$127,000 or 1% and increased 12% over 2007.

- The largest operating expense category for our service-oriented association is payroll and employee related costs, which totaled \$7.6 million in 2008, favorable to budget \$134,000/2% and up 13% from 2007. This category represents approximately 65% of operating expenses. The increase to prior year was driven by both payroll, to meet volume and service level increases, as well as the 1/1/2008 implementation of competitive wage market analysis results. The association managed favorable workers compensation cost savings of \$16,000 to budget and \$37,000 to 2007, due to effective training and management.
- Supplies and maintenance expense increased approximately 7% in 2008 due to overall supplier cost increases, continued aging of our facilities, and fuel costs increase to budget of \$60,000. This category represents approximately 15% of operating expenses.
- Utility expense of \$824,000 was 1% over budget and increased \$75,000 or 10% over 2007 due primarily to utility rate increases. Utilities are approximately 7% of operating expenses and include electricity, natural gas, water, sewer, solid waste, and telephone.

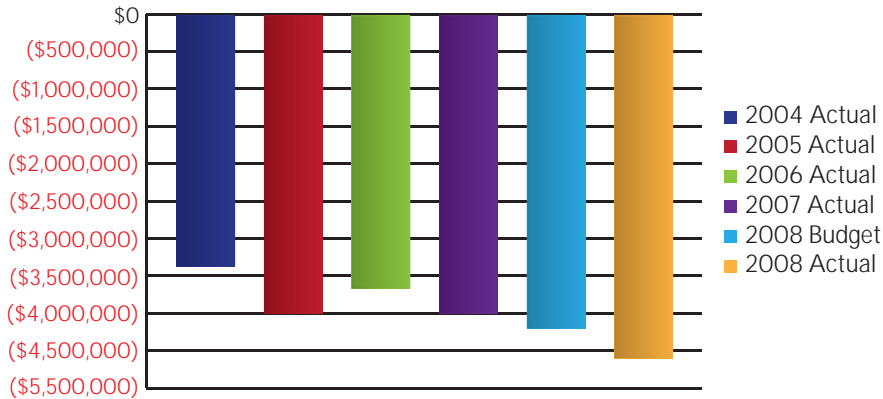
Net Operating Results

Net operating results for all amenities and the homeowners' association administration, before allocation of the annual assessment revenue, were a cost of \$4.6 million, unfavorable to budget \$337,000 or 8% and a 15% increase to 2007.

- Golf Course net operating results loss of \$636,000 was unfavorable \$296,000/87% to budget and unfavorable \$290,000/84% to prior year. The primary driver of unfavorable variances was golf volume not achieving budget expectations, as discussed previously. Further, while there is some opportunity to flex/reduce operating costs, the majority of operating costs are relatively fixed in nature. We have a high quality course that provides significant value to the association and property values. We are assessing all options to improve the financial performance of golf, while maintaining the quality of course conditions and service levels that market conditions demand.
- Downhill Ski Area net operating profit of \$38,000 was favorable to budget \$244,000 or 118% and favorable to prior year \$370,000 or 111%. A record season for 2007/2008, good December holiday conditions and visitation, and relatively fixed operating costs combined for outstanding financial results for 2008.
- Cross Country net operating loss of \$28,000 was favorable to budget \$24,000 and unfavorable to prior year \$11,000. Overall good conditions and visitation, and relatively fixed operating costs combined for good financial results for 2008.
- Equestrian net operating loss of \$195,000 was unfavorable to budget \$3,000 or 1% and favorable to prior year \$8,000 or 4%. Expense reductions and new pricing structure are primary drivers attributable to the favorable results.
- The Lodge, including summer lunch and golf food service, net operating results were a cost of \$419,000, unfavorable to budget by \$77,000 or 22% and favorable to prior year \$141,000 or 25%. Revenues off \$125,000/9% to budget (up \$103k/9% to 2007):
 - a. Decline to budget is attributable to the decline in golf visitation, smoky conditions in summer and economic recession.
 - b. Increase to prior year is attributed primarily to gaining market penetration with marketing efforts throughout the course of the year, and adding lunch table service in summer months.
 - c. Cost of Goods Sold at The Lodge ran on budget and 2 points favorable to prior year, driven in part to good banquet volume in 2008 as compared to 2007.
 - d. Payroll related expense at The Lodge was favorable to budget 4% and on par with prior year, despite adding new lunch table service in 2008 (not in budget or prior year).
 - e. Expenses at The Lodge were over budget \$24,000/8% and under the prior year \$37,000/10%. The notable cost overrun versus budget was building maintenance.
- Private Amenities net operating loss of \$296,000 was unfavorable to budget \$66,000 or 29% and unfavorable to prior year \$105,000 or 55%. Visitation increased at all private amenities, which



Operating Fund – Net Operating Result Loss (Before Annual Assessment Revenues)



increased operating costs. However, with the recreation fee being 55% of revenues, the revenues did not keep pace with cost increases. An in-depth review of operating costs, service levels, and the cost recovery policy is being performed in summer 2009.

- Pizza on the Hill net operating loss of \$99,000 was unfavorable to budget \$57,000 and unfavorable to prior year \$67,000. We added winter operations to Pizza, with good customer response, although with an increased financial cost. However, this restaurant is now gaining momentum. We have recently reworked the menu prices, recipes, and food choices based on customer feedback. This spring, we are remodeling the aged venue and adding a fresh salad bar. Pizza on the Hill offers fresh quality pizza and other food at the lowest prices of any pizza restaurant in town. We are committed to improving the financial performance of this operation, as it provides great family oriented, affordable dining.
- Homeowners association operations managed to an unfavorable \$89,000 or 3% variance to budget and increased \$644,000 or 28% to prior year. The economic recession impacted the association through the slow down in home construction activities as well as the decline in interest income earning rates. Notable variances to budget include \$93,000 in reduced architectural compliance review revenues, \$112,000 in reduced interest income, \$85,000 in professional services fees, and \$26,000 in increased fuel costs (cost savings in numerous areas mitigated these notable cost increases). Notable variances to prior year include \$318,000 in increased payroll costs, \$120,000 in reduced interest income, \$80,000 of increased professional service fees, \$97,000 in forestry, and \$25,000 in fuel costs.
- Total net operating results loss, before assessment revenue allocation, was unfavorable to budget \$337,000 or 8% and a 15% increase to 2007

Members' equity in the Operating Fund totaled \$836,000 at year-end 2008, reflecting a decrease of \$333,000 from the prior year end. This equity equates to \$129 per unit or 10% of 2008 Budget operating revenues.

Operating Fund: Net Operating Results (before Annual Assessment Revenues) Historical 2004 to 2008

The chart above provides a historical perspective of operating fund net losses for your review.

The NOR loss before annual assessment revenues, has increased 8% since 2004 to 2008, as calculated on a Compounded Annual Growth Rate (CAGR) over the four years. While there are numerous fluctuations throughout the associations many businesses, there are four notable drivers to this increase over 2004:

- **Golf.** Golf NOR loss for same period shows a 29% CAGR; attributed course and service quality improvements combined with no revenue growth (0% CAGR). Flat revenues of \$1.2m in 2004 and 2008. NOR Loss in 2004 of 229,000 and in 2008 of \$636,000. While the golf course is a key component of property values in many associations, we are actively addressing opportunities to reduce this operating loss.
- **The Lodge.** Replacing the old golf clubhouse with The Lodge, changing from a basic food and beverage summer operation to a full service annual restaurant operation. Revenues grow from \$69,000 in 2004 to \$1,265,000 in 2008 for The Lodge and Summer Lunch and Golf Food Service operations. NOR loss increases from \$48k in 2004 to \$419k in 2008. The Board and management aggressively addressed The Lodge's financial performance in 2008. The 2008 net results were \$142,000 or 25% improved over 2007, and we continue our focus on improving the Lodge's financial performance in 2009.
- **MIS.** The association's commitment to technology equates to NOR loss increase at a 19% CAGR from 2004 to 2008.
- **ASO.** The association's architectural inspection fees income and other income has declined a 20% CAGR from 2004 to 2008 due to the slowdown in building construction.

Excluding the above four operations, the NOR loss has increased 2% CAGR since 2004 to 2008.



REPLACEMENT RESERVE FUND

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 thirty-year reserve funding and expenditure plan is produced every three years, and updated annually, to schedule and analyze the funding and expenditure needs. Over 1,000 individual items are tracked in this plan, with a current replacement value of over \$35 million. The 2008 fund activities are summarized below:

Revenues

- Assessment allocation to the Replacement Reserve Fund totaled \$2,138,000
- Earnings on investments were \$129,000
- Gain on sale of assets totaled \$40,000

Expenditures

- Fund expenditures for capital asset replacements totaled \$1,501,000
- Fund expenses related to maintenance and repair of capital assets totaled \$206,000
- Fund expense for income taxes totaled \$11,000

Golf capital projects included \$221,000 in replacement of aged operating equipment and \$160,000 related to the cart path renovations. Downhill Ski Area capital projects included \$120,000 for the cafeteria remodel, carpet and window replacement in the day lodge, and \$75,000 for new rental equipment. Trout Creek Recreation Center projects included \$215,000 in pool re-plastering coping and tiles, \$86,000 in new playground equipment, \$64,000 in new deck furniture, and \$48,000 in new fitness equipment. The Equestrian Center required \$180,000 in soil remediation and other site improvements. Other asset repairs and replacements were completed as necessary and included computer system replacements totaling \$53,000 and two vehicle replacements totaling \$68,000. Fund expenses were largely attributed to leases for capital equipment which totaled \$113,000. Other fund expenses included building painting and staining, and asphalt sealing and repairs. Replacement Reserve Fund expenditures by department are outlined in chart on page 13.

As identified and discussed in 2006, complete building replacements have not been included in the association's capital funding plans to-date, as anticipated demolition and complete reconstruction of existing structures was thought to be outside the 30 year capital plan. After a preliminary review of existing buildings and their potential dates of replacement, the Board of Directors now recognizes a need to establish a plan for future funding of building replacements. As a result, \$496,000 in 2007 and \$511,000 in 2008 of assessment contribution (both as budgeted) were made to the Development Fund to begin funding for this requirement. The 2009 Budget includes an assessment contribution to building replacement of \$511,000 and a transfer of Operating Fund Members Equity

in the amount of \$530,000. A detailed analysis of structure replacements is being performed and it is anticipated that a policy will be developed to include building replacements in capital reserve plans. (See Development Fund section of report below.)

Members' equity of \$3.2 million in the Replacement Reserve Fund at year end reflected an increase of \$588,000 from the prior year.

NEW MACHINERY AND EQUIPMENT FUND

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. The 2008 fund activities are summarized below:

Revenues

- Assessment revenue totaled \$108,000

Expenditures

- Purchases of new capital assets totaled \$171,000; notables include:
 - Integrated web based point of sale software, \$45,000
 - Forestry Chipper Truck, \$41,000
 - Equipment Maintenance shop fumes exhaust system, \$19,000
 - Golf Beverage Cart, \$15,000

Members' equity in the New Machinery and Equipment Fund totaled (\$5,000) at year-end, a decrease of \$63,000 from the prior year end. This negative balance was refunded in 2009 Budget.

DEVELOPMENT FUND

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 2008 fund activities are summarized below:

Revenues

- Assessment allocation to the Development Fund totaled \$923,000
 - \$511,000 Building Replacement Designated
 - \$412,000 Undesignated
- Earnings on investments totaled \$164,000

Expenditures

- Fund expenditures for capital additions totaled \$11,000
- Fund expense for income taxes totaled \$14,000

Fund expenditures for capital asset additions included \$9,000 for new maintenance facility needs study and conceptual design and \$2,000 to complete the downhill ski magic carpet beginner surface lift project.

The association owned a 32-acre parcel, adjacent to but outside the subdivision borders, that was held in the Development Fund. The parcel sold in 2004 and the net proceeds of \$2.8 million from that sale are retained in the Development Fund. No plans have been made for expenditure of these receipts that can only be used for recreational projects, other than a 2009 approved by the Board project for \$29,000 to install a disk golf course at the downhill ski area for summer recreation.

Members' equity in the Development Fund increased \$1,062,000 in 2008, for a year-end balance of \$5.1 million. This balance is segregated as follows: \$3,163,000 Restricted, \$1,007,000 Building Replacement Designated, and \$966,000 Regular Designated.

PROPERTY FUND

The Property Fund is used to account for the association's investment in its fixed assets.

- Capital additions totaled \$1.7 million for the year, \$1,501,000 from expenditures in the Replacement Reserve Fund, \$171,000 from New Machinery and Equipment Fund capital purchases, and \$11,000 from Development Fund projects.
- Depreciation expense for the year totaled \$2,164,000.

Members' equity in the Property Fund decreased \$486,000 in 2008, for a year-end balance of \$27.7 million.

MEMBERS' EQUITY

Tahoe Donner Association's total members' equity was \$36.8 million at the end of fiscal year 2008, or \$5,688 per member property; a 2% increase from \$5,577 per property in 2007.

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, 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 begin on page 14 of this 2008 Annual Report.



Net Operating Results Per Property Unit

Tahoe Donner Association
Operating Fund
Year Ending December 31

	2008 Actual	2008 Budget	2007 Actual	2008 Actual variance to	
				2008 Budget	2007 Actual
PRIVATE AMENITIES					
Trout Creek Recreation Center	\$ -17	\$ -11	\$ -10	\$ -6	\$ -7
Beach Club Marina	5	5	3	0	2
Tennis Center	6	-9	-7	3	1
Northwoods Pool, Camps, and Programs	-27	-21	-16	-6	-11
TOTAL PRIVATE AMENITIES	-46	-36	-30	-10	-16
PUBLIC AMENITIES					
Golf	-98	-53	-53	-45	-45
Downhill Ski	6	-32	-51	38	57
Cross Country Ski	-4	-8	-3	4	-1
Snowplay	-1	-2	-1	1	0
Campground	-10	-6	-6	-4	-4
Equestrian	-30	-30	-31	0	1
The Lodge, Dining & Banquets	-53	-48	-87	-5	34
The Lodge, Lunch & Golf Food Service	-12	-5	0	-7	-12
Pizza on the Hill	-15	-7	-5	-8	-10
TOTAL PUBLIC AMENITIES	-218	-189	-239	-29	21
TOTAL AMENITIES	-263	-225	-268	-38	5
HOMEOWNERS ASSOCIATION					
General	-140	-123	-111	-17	-29
Management, Accounting, Personnel	-14	-13	5	-1	-19
Architectural & Member Services	-52	-39	-37	-13	-15
Forestry	-132	-133	-114	1	-18
Maintenance	-112	-129	-92	17	-20
TOTAL HOMEOWNERS ASSOCIATION	-450	-436	-350	-14	-100
TOTAL OPERATING RESULTS	-713	-661	-618	-52	-95
Assessment Revenues	662	661	618	1	44
Total Operating Fund	\$ -52	\$ 0	\$ 0	\$ -52	\$ -52

Note – All amounts in chart include allocated overhead from HOA operations to Amenities.

This schedule provides a summary of where the operating fund portion of your annual assessment is applied. Operating Fund Net Operating Results (NOR) excludes capital costs such as capital assessment charges, capital expenditures, and depreciation. Note - this schedule utilizes Budget 2008 # of units (6464) for denominator for all columns for a consistent metric of measure. Actual # of units as of 12/31/2008 is 6472. Hence, the \$1/unit increase in Assessment revenues versus budget increase. Budget after Assessment Revenues equals \$0, a balanced budget. 2007 Actual results were at 2007 Budget, therefore net \$0.

OPERATING FUND ACTIVITIES >>

TAHOE DONNER ASSOCIATION DEPARTMENTAL RESULTS SUMMA- RY YEAR ENDING DECEMBER 31	2008					Net Operating Results (NOR) 2008 Actual	NOR 2008 Budget
	Gross Revenue	Cost of Goods Sold	Gross Margin	Operating Expenses			
PRIVATE AMENITIES							
Trout Creek Recreation Center	\$ 947,030	\$ -33,130	\$ 913,900	\$ -1,026,776	\$ -112,876	\$ -68,763	
Beach Club Marina	319,553	-24,874	294,679	-262,801	31,878	34,886	
Tennis Center	160,271	-14,213	146,058	-186,942	-40,884	-59,776	
Northwoods Pool, Camps, and Programs	125,804	-1,230	124,574	-298,942	-174,368	-136,589	
TOTAL PRIVATE AMENITIES	1,552,658	-73,447	1,479,211	-1,775,461	-296,250	-230,242	
PUBLIC AMENITIES							
Golf	1,225,246	-87,608	1,137,638	-1,773,570	-635,932	-339,902	
Downhill Ski Area	2,228,230	-204,261	2,023,969	-1,986,077	37,892	-205,669	
Cross Country Ski Center	637,240	-46,438	590,802	-618,608	-27,806	-51,448	
Snowplay	34,790	0	34,790	-40,024	-5,234	-13,416	
Campground	35,663	0	35,663	-97,971	-62,308	-36,927	
Equestrian	173,787	-5,907	167,880	-362,589	-194,709	-191,893	
The Lodge, Dining & Banquets	1,159,479	-392,201	767,278	-1,108,890	-341,612	-311,855	
The Lodge, Lunch & Golf Food Service	105,357	-51,321	54,036	-131,466	-77,430	-30,737	
Pizza On The Hill	131,510	-43,177	88,333	-187,416	-99,083	-42,453	
TOTAL PUBLIC AMENITIES	5,731,302	-830,913	4,900,389	-6,306,611	-1,406,222	-1,224,300	
TOTAL AMENITIES	7,283,960	-904,360	6,379,600	-8,082,072	-1,702,472	-1,454,542	
HOMEOWNERS ASSOCIATION							
General	182,783	0	182,783	-1,089,102	-906,319	-792,315	
Management, Accounting, Personnel	221,058	0	221,058	-310,882	-89,824	-85,623	
Architectural & Member Services	109,780	0	109,780	-443,987	-334,207	-249,502	
Forestry	66,364	0	66,364	-920,454	-854,090	-858,266	
Maintenance	0	0	0	-722,445	-722,445	-832,545	
TOTAL HOMEOWNERS ASSOCIATION	579,985	0	579,985	-3,486,870	-2,906,885	-2,818,251	
TOTAL OPERATING RESULTS	7,863,945	-904,360	6,959,585	-11,568,942	-4,609,357	-4,272,793	
Assessment Revenue	4,276,339	0	4,276,339	0	4,276,339	4,272,793	
Total Operating Fund	\$ 12,140,284	\$ -904,360	\$ 11,235,924	\$ -11,568,942	\$ -333,018	\$ 0	

Note: Net Operating Results (NOR) for each department includes an overhead allocation, however, it does exclude any capital or depreciation charge.

<< OPERATING FUND ACTIVITIES

<< NET OPERATING RESULTS (NOR) >>		
2008 Actual vs Budget	NOR 2007 Actual	NOR 2008 vs 2007
\$ -44,113	\$ -62,815	\$ -50,061
-3,008	19,374	12,504
18,892	-43,986	3,102
-37,779	-103,531	-70,837
-66,008	-190,958	-105,292
-296,030	-345,819	-290,113
243,561	-332,133	370,025
23,642	-17,280	-10,526
8,182	-9,508	4,274
-25,381	-41,876	-20,432
-2,816	-202,392	7,683
-29,757	-560,755	219,143
-46,693	0	-77,430
-56,630	-32,151	-66,932
-181,922	-1,541,914	135,692
-247,930	-1,732,872	30,400
-114,004	-719,437	-186,882
-4,201	29,686	-119,510
-84,705	-236,106	-98,101
4,176	-739,360	-114,730
110,100	-597,146	-125,299
-88,634	-2,262,363	-644,522
-336,564	-3,995,235	-614,122
3,546	3,994,106	282,233
\$ -333,018	\$ -1,129	\$ -331,889

<< TOTAL COSTS INCLUDING CAPITAL >>					
2008 NOR	Contribution to Replace-ment Re-serve Fund	2008 Net Results After Capital	2008 per Property 6472	2007 per Property 6464	2008 vs 2007
\$ -112,876	\$ -145,330	\$ -258,206	\$ -40	\$ -36	\$ -4
31,878	-47,437	-15,559	-2	-3	1
-40,884	-55,775	-96,659	-15	-16	1
-174,368	-25,580	-199,948	-31	-20	-11
-296,250	-274,122	-570,372	-88	-75	-13
-635,932	-489,643	-1,125,575	-174	-120	-54
37,892	-298,579	-260,687	-40	-98	58
-27,806	-117,696	-145,502	-22	-23	1
-5,234	0	-5,234	-1	-1	0
-62,308	-10,807	-73,115	-11	-8	-3
-194,709	-35,876	-230,585	-36	-38	2
-341,612	-183,760	-525,372	-81	-113	32
-77,430	0	-77,430	-12	0	-12
-99,083	-24,694	-123,777	-19	-8	-11
-1,406,222	-1,161,055	-2,567,277	-397	-409	12
-1,702,472	-1,435,177	-3,137,649	-485	-484	-1
-906,319	-333,598	-1,239,917	-192	-157	-35
-89,824	-157,327	-247,151	-38	-23	-15
-334,207	-2,538	-336,745	-52	-37	-15
-854,090	-60,125	-914,215	-141	-123	-18
-722,445	-149,524	-871,969	-135	-112	-23
-2,906,885	-703,112	-3,609,997	-558	-452	-106
-4,609,357	-2,138,289	-6,747,646	-1,043	-936	-107
4,276,339	2,138,289	6,414,628	991	936	55
\$ -333,018	\$ 0	\$ -333,018	\$ -51	\$ -0.17	\$ -51

CAPITAL FUNDS SUMMARY – YEAR ENDING DECEMBER 31 TAHOE DONNER ASSOCIATION

	2008 Actual	2008 Budget	2008 Actual vs Budget	2007 Actual	2008 vs 2007
Replacement Reserve Fund					
Beginning Fund Balance	\$2,609,095	\$2,609,095	-	\$1,802,231	\$806,864
Assessment Contribution	2,138,289	2,138,289	-	2,053,086	85,203
Interest Revenue	128,613	166,000	(37,387)	135,407	(6,794)
Other Revenue & Expense – Net	28,982	7,000	21,982	13,279	15,703
Major Maintenance Expenses	(206,227)	(231,850)	25,623	(434,999)	228,772
Expenditures for Capital Additions	(1,501,395)	(2,037,967)	536,572	(959,909)	(541,486)
Change in Fund Balance	588,262	41,472	546,790	806,864	(218,602)
Ending Fund Balance	3,197,357	2,650,567	546,790	2,609,095	588,262
New Machinery & Equipment Fund					
Beginning Fund Balance	57,984	57,984	-	196,040	(138,056)
Assessment Contribution	107,700	107,700	-	140,000	(32,300)
Major Maintenance Expenses	-	-	-	-	-
Expenditures for Capital Additions	(170,975)	(179,802)	8,827	(278,056)	107,081
Change in Fund Balance	(63,275)	(72,102)	8,827	(138,056)	74,781
Ending Fund Balance	(5,291)	(14,118)	8,827	57,984	(63,275)
Development Fund (includes Restricted, Designated Building Replacement, and Regular)					
Beginning Fund Balance	4,074,240	4,074,240	-	3,496,845	577,395
Assessment Contribution	923,011	923,011	-	887,361	35,650
Interest Revenue	163,994	150,000	13,994	183,151	(19,157)
Other Revenue & Expense, Net	(14,497)	(12,000)	(2,497)	(18,118)	3,621
Expenditures for Capital Additions	(10,736)	(19,222)	8,486	(474,999)	464,263
Change in Fund Balance	1,061,772	1,041,789	19,983	577,395	484,377
Ending Fund Balance	5,136,012	5,116,029	19,983	4,074,240	1,061,772
Capital Funds Totals					
	see next page				
Major Maintenance Expenses	(206,227)	(231,850)	25,623	(434,999)	228,772
Expenditures for Capital Additions	(1,683,106)	(2,236,991)	553,885	(1,712,964)	29,858
Total	\$(1,889,333)	\$(2,468,841)	\$579,508	\$(2,147,963)	\$258,630

Development Fund 12/31/08 Ending Balance Components: \$3,163,109 Restricted, \$1,007,000 Designated Building Replacement, and \$965,903 Regular.
The variance between Actual and Budget capital expenditures is primarily driven by the timing of projects between years.

CAPITAL FUNDS EXPENDITURES BY DEPARTMENT – YEAR ENDING DECEMBER 31, 2008 TAHOE DONNER ASSOCIATION

	Replacement Reserve Fund		New Machinery & Equipment Fund		Development Fund		Capital Funds Total	
	Capital Additions	Major Maint.	Capital Additions	Major Maint.	Capital Additions	Major Maint.	Capital Additions	Major Maint.
PRIVATE AMENITIES								
Trout Creek Recreation Center	\$432,325	\$11,350	\$-	-	\$-	-	\$432,325	\$11,350
Beach Club Marina	22,438	-	-	-	-	-	22,438	-
Tennis Center	20,584	22,520	-	-	-	-	20,584	22,520
Northwoods Pool	6,325	-	-	-	-	-	6,325	-
Camps & Recreation Programs	-	-	-	-	-	-	-	-
TOTAL PRIVATE AMENITIES	481,672	33,870	-	-	-	-	481,672	33,870
PUBLIC AMENITIES								
Golf	381,289	58,011	33,104	-	-	-	414,393	58,011
Downhill Ski Area	216,268	11,170	25,140	-	1,600	-	243,008	11,170
Cross Country Ski Center	22,818	1,950	-	-	-	-	22,818	1,950
Campground	-	8,079	-	-	-	-	-	8,079
Equestrian	187,180	1,950	-	-	-	-	187,180	1,950
The Lodge	1,021	23,898	-	-	-	-	1,021	23,898
Pizza On The Hill	-	-	-	-	-	-	-	-
Snowplay	-	-	-	-	-	-	-	-
TOTAL PUBLIC AMENITIES	808,576	105,058	58,244	-	1,600	-	868,420	105,058
TOTAL AMENITIES	1,290,248	138,928	58,244	-	1,600	-	1,350,092	138,928
HOMEOWNERS ASSOCIATION								
General	-	11,660	-	-	-	-	-	11,660
Communications	-	-	2,640	-	-	-	2,640	-
Facility Administration	-	-	-	-	-	-	-	-
Administration	47,201	8,075	-	-	-	-	47,201	8,075
Management Information Systems	63,947	36,525	45,216	-	-	-	109,163	36,525
Accounting	-	-	-	-	-	-	-	-
Human Resources	-	-	5,000	-	-	-	5,000	-
Architectural Standards Office	-	9,937	-	-	-	-	-	9,937
Member Services	-	-	-	-	-	-	-	-
Forestry	-	-	40,809	-	-	-	40,809	-
Maintenance	71,499	1,102	-	-	9,136	-	80,635	1,102
Vehicle Maintenance	28,500	-	19,066	-	-	-	47,566	-
TOTAL HOMEOWNERS ASSOCIATION	211,147	67,299	112,731	-	9,136	-	333,014	67,299
TOTAL	\$1,501,395	\$206,227	\$170,975	\$-	\$10,736	\$-	\$1,683,106	\$206,227

Financial statements with independent auditor's report years ended December 31, 2008 and 2007

We have audited the accompanying statements of financial position of Tahoe Donner Association (Association) as of December 31, 2008 and 2007, and the related statements of revenue, expenses and changes in members' equity, and of cash flows for the years 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 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 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 audits provide 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 Tahoe Donner Association as of December 31, 2008 and 2007, and the changes in its members' equity and its cash flows for the years 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 15 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.

GILBERT ASSOCIATES, INC.

Sacramento, California

March 19, 2009



TAHOE DONNER ASSOCIATION							
STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2008 AND 2007	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2008	Total 2007
ASSETS							
Cash	\$2,031,758					\$2,031,758	\$3,501,660
Cash, designated and restricted	962	\$265,584		\$107,143		373,689	2,253,826
Investments	2,065,858					2,065,858	2,307,147
Investments, designated and restricted	200,000	3,051,866		5,000,000		8,251,866	3,385,509
Assessments and other member receivables, net of allowance for doubtful accounts of \$54,130 in 2008 and \$28,590 in 2007	160,860					160,860	98,191
Special assessment receivable				17,853		17,853	219,298
Other receivables	58,948	17,659		29,144		105,751	130,601
Inventory	387,232					387,232	345,503
Prepaid expenses and other assets	132,842					132,842	211,403
Due from (to) other funds	(1,065,066)	676,488	\$46,515	298,914	\$43,149		
Net property and equipment					27,609,696	27,609,696	28,095,900
TOTAL ASSETS	\$3,973,394	\$4,011,597	\$46,515	\$5,453,054	\$27,652,845	\$41,137,405	\$40,549,038

LIABILITIES AND MEMBERS' EQUITY							
Accounts payable	\$225,572	\$110,747				\$336,319	\$390,592
Deferred revenues	2,123,538	692,124	\$51,806	\$302,545		3,170,013	3,079,391
Deposits from members	204,009					204,009	264,055
Accrued liabilities	584,733	11,369		14,497		610,599	481,072
Note payable							285,000
TOTAL LIABILITIES	3,137,852	814,240	51,806	317,042		4,320,940	4,500,110
MEMBERS' EQUITY	835,542	3,197,357	(5,291)	5,136,012	\$27,652,845	36,816,465	36,048,928
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$39,73,394	\$4,011,597	\$46,515	\$5,453,054	\$27,652,845	\$41,137,405	\$40,549,038

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

TAHOE DONNER ASSOCIATION		OPERATIONS		
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN MEMBERS' EQUITY – DECEMBER 31, 2008 AND 2007	Amenities	Homeowners' Association	Total Operating Fund	
OPERATING REVENUES:				
Access and use fees	\$3,545,841			\$3,545,841
Retail sales	2,262,121	\$40,757		2,302,878
Lessons and rental revenue	1,417,194			1,417,194
Other revenues	58,804	439,699		498,503
Interest income		99,529		99,529
Gross operating revenues	7,283,960	579,985		7,863,945
Cost of goods sold	(904,360)			(904,360)
Net operating revenues	6,379,600	579,985		6,959,585
OPERATING EXPENSES:				
Salaries and wages	3,438,197	2,617,608		6,055,805
Payroll taxes and employee benefits	796,792	708,169		1,504,961
Other employee expenses	59,728	106,505		166,233
Utilities	634,525	190,923		825,448
Supplies and maintenance	1,212,387	475,991		1,688,378
Insurance	248,633	154,275		402,908
Allocated overhead	1,440,581	(1,440,581)		
Income taxes		53,705		53,705
Other expenses	251,229	620,275		871,504
Total operating expenses	8,082,072	3,486,870		11,568,942
NET OPERATING INCOME (LOSS)	(1,702,472)	(2,906,885)		(4,609,357)
CAPITAL ACTIVITIES:				
Capital additions and transfers				
Gain (loss) on sale of or disposal of assets				
Fund expenses				
Depreciation expense				
Total capital activities				
ASSESSMENTS:				
Assessment revenues	1,411,564	2,864,775		4,276,339
INCREASE (DECREASE) IN MEMBERS' EQUITY	\$(290,908)	\$(42,110)		(333,018)
MEMBERS' EQUITY, December 31, 2007				1,168,560
MEMBERS' EQUITY, December 31, 2008				\$835,542

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

CAPITAL				TOTALS	
Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2008	Total 2007
				\$3,545,841	\$3,125,802
				2,302,878	2,000,511
				1,417,194	1,133,277
				498,503	635,984
\$128,613		\$163,994		392,136	537,800
128,613		163,994		8,156,552	7,433,374
				(904,360)	(815,867)
128,613		163,994		7,252,192	6,617,507
				6,055,805	5,283,814
				1,504,961	1,421,739
				166,233	161,010
				825,448	750,304
				1,688,378	1,565,366
				402,908	347,763
11,369		14,497		79,571	88,562
				871,504	701,143
11,369		14,497		11,594,808	10,319,701
117,244		149,497		(4,342,616)	(3,702,194)
(1,501,395)	\$(170,975)	(10,736)	\$1,683,106		
40,351			(4,963)	35,388	20,678
(206,227)				(206,227)	(434,999)
			(2,164,347)	(2,164,347)	(1,973,994)
(1,667,271)	(170,975)	(10,736)	(486,204)	(2,335,186)	(2,388,315)
2,138,289	107,700	923,011		7,445,339	7,074,553
588,262	(63,275)	1,061,772	(486,204)	767,537	984,044
2,609,095	57,984	4,074,240	28,139,049	36,048,928	35,064,884
\$3,197,357	\$(5,291)	\$5,136,012	\$27,652,845	\$36,816,465	\$36,048,928

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

TAHOE DONNER ASSOCIATION
**STATEMENTS OF CASH FLOWS –
YEARS ENDING DECEMBER 31, 2008
AND 2007**

	Operating Fund	Replacement Reserve Fund	New Machinery & Equipment Fund	Development Fund	Property Fund	Total 2008	Total 2007
CASH FLOWS FROM OPERATING ACTIVITIES:							
Increase (decrease) in Members' Equity	\$(333,018)	\$588,262	\$(63,275)	\$1,061,772	\$(486,204)	\$767,537	\$984,044
Reconciliation to net cash provided (used) by operating activities:							
Net gain on investments							(4,478)
Depreciation expense					2,164,347	2,164,347	1,973,994
Capital additions and transfers		1,501,395	170,975	10,736	(1,683,106)		
Loss (gain) on sale or disposal of property and equipment		(40,351)			4,963	(35,388)	(20,678)
Changes in:							
Assessments receivable	(62,669)					(62,669)	(34,082)
Special assessment receivable				201,445		201,445	436,123
Other receivables	52,367	(11,780)		(15,737)		24,850	48,850
Inventory	(41,729)					(41,729)	(72,838)
Prepaid expenses and other assets	78,561					78,561	(60,750)
Due from (to) other funds	(510,047)	806,451	28,188	(324,592)			
Accounts payable	(41,768)	33,506	(16,719)	(29,292)		(54,273)	(54,688)
Deferred revenues	(955,853)	692,124	51,806	302,545		90,622	(88,874)
Deposits from members	(60,046)					(60,046)	(98,371)
Accrued liabilities	104,303	11,369		13,855		129,527	16,741
Net cash provided by operating activities	(1,769,899)	3,580,976	170,975	1,220,732		3,202,784	3,024,993

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment		(1,501,395)	(170,975)	(10,736)		(1,683,106)	(1,712,964)
Proceeds from sale of property and equipment		40,351				40,351	24,112
Purchases of investments	(4,463,711)	(6,776,866)		(8,617,822)		(19,858,399)	(11,966,300)
Proceeds from sale of investments	4,605,000	4,623,751		6,004,580		15,233,331	14,232,000
Net cash provided (used) by investing activities	141,289	(3,614,159)	(170,975)	(2,623,978)		(6,267,823)	576,848

CASH FLOWS FROM FINANCIAL ACTIVITIES:

Principal payments on note payable				(285,000)		(285,000)	(334,000)
Net cash used by financing activities				(285,000)		(285,000)	(334,000)
Net increase (decrease) in cash	(1,628,610)	(33,183)		(1,688,246)		(3,350,039)	3,267,841
Cash, beginning of year	3,661,330	298,767		1,795,389		5,755,486	2,487,645
Cash, end of year	\$2,032,720	\$265,584		\$107,143		\$2,405,447	\$5,755,486
Other cash flow information:							
Income taxes paid	\$64,902					\$64,902	\$64,268

1. OPERATIONS

Tahoe Donner Association (Association) is a California nonprofit mutual benefit corporation. The Association's members own the 6,472 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, two 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 & 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.

Assessment revenue and special 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 collectibility 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.

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 of equipment and construction of facilities are recorded at cost and depreciated using the straight-line method over estimated useful lives of 3 to 60 years. The Association's policy is to capitalize such items with a cost of \$2,000 or more. These assets are recorded directly in the property fund.

Approximately 2,000 acres of undeveloped non-common area real property owned by the Association is controlled by the Association's declaration of covenants and restrictions. This real property is located adjacent to the Tahoe Donner development and could be sold upon action by the Board of Directors after an advisory vote of the membership, which it is not obligated to follow.

Interest income is allocated to the operating, replacement and reserve 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 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.

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.

Recent accounting pronouncements – In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes guidelines for measuring fair value and expands

disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The adoption of SFAS 157 for financial assets and liabilities on January 1, 2008 did not have a material impact on the Association's statement of financial position or the related statements of revenue, expenses and changes in members' equity, and of cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS No. 159 for financial assets and liabilities on January 1, 2008 does not have a material impact on the Association's statement of financial position or the related statements of revenue, expenses and changes in members' equity, and of cash flows.

FASB issued interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS 109). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Association has elected to defer FIN 48 to fiscal year ending December 31, 2009. The Association will evaluate any uncertain tax positions in conjunction with the preparation of the tax return.

Reclassifications – Certain 2007 amounts have been reclassified to conform to the 2008 financial statement presentation.

3. CASH AND INVESTMENTS

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

	<u>2008</u>	<u>2007</u>
Undesignated and unrestricted	\$4,097,616	\$5,808,807
Replacement reserve fund - designated	3,317,450	1,197,518
Development fund - restricted	2,780,395	2,780,395
Development fund - designated	2,326,748	1,401,752
Architectural standards deposits - restricted (note 5)	<u>200,962</u>	<u>259,670</u>
Total	<u>\$12,723,171</u>	<u>\$11,448,142</u>

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.

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. Investments are comprised of U.S. Treasury securities, corporate debt securities, and certificates of deposit.

Investments at December 31, 2008 mature as follows:

<u>Investment</u>	<u>Within 1 Year</u>	<u>1-2 Years</u>	<u>Total</u>
Corporate debt securities	\$401,866		\$401,866
Certificates of deposit	<u>9,415,858</u>	<u>\$500,000</u>	<u>9,915,858</u>
Total	<u>\$9,817,724</u>	<u>\$500,000</u>	<u>\$10,317,724</u>

The amount of amortized cost, fair value, and unrecognized holding gains and losses were as follows at December 31:

	<u>2008</u>	<u>2007</u>
U.S. Treasury securities		
Fair value		\$2,196,389
Unrecognized holding gains		(3,383)
Amortized cost		<u>\$2,193,006</u>
Corporate debt securities		
Fair value	\$398,360	\$270,090
Unrecognized holding losses	3,506	20,525
Amortized cost	<u>\$401,866</u>	<u>\$290,615</u>
Certificates of deposit		
Fair value	\$9,983,148	\$3,205,947
Unrecognized holding (gains) losses	<u>(67,290)</u>	<u>3,088</u>
Amortized cost	<u>\$9,915,858</u>	<u>\$3,209,035</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2008</u>	<u>2007</u>
Buildings	\$20,627,420	\$20,568,699
Fixtures and facility improvements	10,600,044	9,822,902
Equipment	7,964,531	7,735,500
Land and land improvements	4,699,778	4,699,778
Furnishings	<u>604,964</u>	<u>583,340</u>
Total	44,496,737	43,410,219
Less accumulated depreciation	<u>(17,102,499)</u>	<u>(15,499,295)</u>
	27,394,238	27,910,924
Construction in progress	<u>215,458</u>	<u>184,976</u>
Total	<u>\$27,609,696</u>	<u>\$28,095,900</u>

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. NOTE PAYABLE

In 2005, the Association borrowed \$1,099,000. Principal was payable in three annual installments of \$275,000 plus one final installment equal to the entire unpaid principal balance and any accrued but unpaid interest, due in May 2009. Interest, at 6.755% per annum, was due in forty-three installments concluding in April 2009. The Association paid off the entire note and accrued interest during the year ended December 31, 2008.

Proceeds from the loan were used to finance approved construction projects. Membership special assessment revenues will be used to offset the note and related financing costs (Note 10). As part of the note agreement, the Association was required to maintain an account with Union Bank until the note was paid in full.

7. 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 2008, 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.

8. SALARY SAVINGS PLAN

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 \$52,799 and \$45,089 for 2008 and 2007, respectively.

9. OPERATING LEASE OBLIGATIONS

The Association has non-cancelable operating leases for loader equipment, copiers, golf carts and computer equipment. Rental expense under all operating leases was \$140,323 and \$144,751 for 2008 and 2007, respectively. Future minimum lease payments under these leases are as follows:

<u>Year ending December 31:</u>	
2009	\$102,670
2010	41,033
2011	21,405
2012	<u>7,385</u>
Total	<u>\$172,493</u>

10. SPECIAL ASSESSMENT

During 2002, the Association's membership voted to approve a special assessment to purchase real property, expand the Trout Creek Recreation Center and construct a new community/golf course clubhouse. The amount of the assessment was \$1,383 per member, or \$8,798,646 in total. Each member had the option to pay the assessment in one lump sum or over a seven-year period. The assessment was billed to the membership in January 2003. Interest is now assessed on the outstanding special assessment balances as the Association has the right to only charge members for actual interest costs that it incurred to facilitate financing of the projects.

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS DECEMBER 31, 2008 (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 2008 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, 2008, was \$3,283,000. The 2009 lot assessments include \$2,162,000 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 impacts of these exclusions on estimated current replacement costs has not been determined.

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 & recreation	0-28	1-30	\$2,659,226
Marina	0-26	1-30	1,017,520
Tennis complex	0-17	1-30	978,144
Downhill ski area	0-27	1-30	5,068,870
Cross country/equestrian	0-27	1-30	1,776,507
Golf complex	0-29	1-30	10,434,233
Campground	0-25	1-25	644,118
The Lodge	0-29	1-30	2,845,361
Pizza On the Hill	0-30	1-30	387,760
Administration	0-30	1-30	1,200,974
Maintenance	0-30	1-30	<u>8,119,411</u>
Total			<u>\$35,132,124</u>

