



Your New Resort Manager

We are excited to introduce Holly Ansley as your new General Manager at Grand Pacific Palisades Resort and Hotel. Holly's hospitality career started in Las Vegas, as the Executive Housekeeper of the Sunset Station Hotel and Casino. She moved her way up to Director of Hotel Operations at Sunset Station, and then moved to San Diego in 2001.

Holly may be new to Grand Pacific Palisades, but she is no stranger to the Grand Pacific family. After moving to San Diego in 2001, Holly became General Manager at Carlsbad Seapointe Resort and was in that position for three years. She then moved to our sister resort and was General Manager of Coronado Beach Resort from 2004-2006. Just recently Holly was the General Manager of Glorietta Bay Inn, a boutique hotel on Coronado Island. Holly was born in Augusta, Georgia but lived in Las Vegas, Nevada for 18 years. She graduated from the University of Las Vegas with a Bachelors Degree in Hotel Administration in 1994. Holly is the proud mother of a two year old son, Mathew, and lives in Tierrasanta, California.

Please welcome Holly to Grand Pacific Palisades; we are very happy she has joined our Team.

(Continued on page 3)

Your Reserve Funds at Work

One of the most important responsibilities here at Grand Pacific Palisades is to make sure your property is consistently being maintained to the highest standards.

Each year, we use Reserve Funds for large and ongoing improvements to protect the life of your property as well as make sure everything is up and running smoothly. As you know, being so close to the ocean, the moist salt air can weigh heavily on the building and materials.

So far in 2011, some sections of rotted wood have been replaced and the stairwells painted in Villa C. Four AC units have been replaced and a new 200-amp electrical panel and junction box installed in the underground parking garage. This operates all

security and hallway lighting in the Villa C building. There is still work to do this year and some of the projects include additional security equipment to allow Management to provide an even safer resort environment. Maintenance will also add three boiler expansion tanks, repair all the patios on Villa C and caulk around the Adult Pool.

We are always excited to share our up-and-coming improvements, and if you ever have any questions or concerns, feel free to give us a call. We look forward to seeing you soon.



Homeowner's Association Day

On April 23, 2011, Grand Pacific Palisades celebrated our Homeowner's Association Day. The weather was perfect and the activities and entertainment were second to none. We started off the afternoon with a delicious poolside barbecue, catered by Chuck Wagon Catering with musical entertainment, featuring the great Lisa Campbell. Ruffled off were many exciting prizes, such as Padre tickets, a free massage and a complimentary week at Grand Pacific Palisades.

(Continued on page 2)

Homeowner's Association Day

(Continued from page 1)

There was also a Vacation Ownership Expo out on the Grand Terrace Lawn. We celebrated our Owners by having our Owner Appreciation booth, which gave Owners an opportunity to purchase a Deluxe Evergreen Mattress, custom made for GPR, as well as our beautiful Plush Robes. In addition, there were representatives from RCI, GPX (Grand Pacific Exchange), ResorTime and our Owner Services Department available to answer any questions concerning your Ownership.

Because this was Easter weekend, we had a Family Fun Carnival and Easter Egg Hunt for all families. Over 5,000 Easter Eggs were hidden! It was a wonderful time for all.

The day ended with our Annual Owners Meeting where Jay Anderson, Regional Director, and I gave a presentation on all the fabulous things that happened at Grand Pacific Palisades in 2010 as well as the upcoming projects for 2011.

Thanks to each and every Owner who joined us on HOA Day. We hope to see you on vacation soon.

Thank you,

Holly Ansley
General Manager
Grand Pacific Palisades Resort and Hotel



Important Newsletter Update!

As your management company, Grand Pacific Resort Management (GPRM) constantly evaluates cost vs. benefit of offerings and deliverables for our homeowners. To that end, we took a close look at our Resort Newsletters, and focused on the value proposition of a quarterly newsletter vs. a bi-annual newsletter, with email updates as needed. We also conducted a survey of our owners regarding the newsletters, frequency, and benefits.

We came up with a new Newsletter program that incorporates your ideas, and which is in sync with our Going Green initiative, reduces costs, and continues to provide important and timely information to you about your resort ownership:

- Beginning in 2011 you will receive two full resort

newsletters per year, via either U.S. Mail or email (your choice), plus updates via email as needed. If you haven't already provided us with your email address, please do so!

- Our Resort budget will benefit from lower printing and postage costs.
- For quick and timely information, we encourage you to visit your Resort website www.GrandPacificPalisades.com or contact your Owner Services Team at 888-477-6967.

We welcome the opportunity to keep you fully informed about your resort ownership, while at the same time saving money and protecting the environment.

Your New Resort Manager

(Continued from page 1)

Some of you may be wondering what happened to your General Manager, Jay Anderson. Jay is still very much involved with Grand Pacific Palisades and is overseeing the resort's operations in a Regional capacity.

When asked about his time at GPPR as General Manager, Jay stated, "My heart and passion is with Palisades. I was on the opening team 12 years ago and I've seen the resort evolve into the beautiful property it is today. It is with happiness I accept this new role as a Regional Director, but with mixed emotions as I step aside and hand over the reins. Holly is a great leader and I'm confident that with her commitment and experience she will help elevate Palisades to even greater heights."



Grand Pacific Palisades Meeting Highlights

January 20, 2011 Board of Directors' Meeting

President Dr. Joseph Spirito called the meeting to order at 9:10am. Board members in attendance were Dr. Joseph Spirito, David Brown, Robert Shipley, and Mary Dieckmann. Linda Simkins Ruane was unable to attend. Representing Management were Nigel Lobo, Vice President of Resort Operations; Patrick Fernane, Regional Director; and Jay Anderson, Area Manager. Lois Sklar took the minutes.

The following actions took place:

- The Board approved the Minutes from the October 14, 2010 Board of Directors' Meeting.
- An overview of resort Operations, including Front Desk, Housekeeping, Maintenance, Activities, Landscaping, and Fiscal Performance was presented.
- The Board approved moving ahead with the foreclosure of the recommended 236 delinquent weeks. (David Brown abstained)
- The meeting was adjourned at 9:50am.

April 23, 2011 Board of Directors' Meeting

President Dr. Joseph Spirito called the meeting to order at 12:30pm. Board members in attendance were Dr. Joseph Spirito, David Brown, Linda Simkins Ruane, and Mary Dieckmann. Robert Shipley was unable to attend. Representing Management were Nigel Lobo, Vice President of Resort Operations; Jay Anderson, Regional Director; and Holly Ansley, General Manager. Lois Sklar took the minutes.

The following actions took place:

- The Board approved the Minutes from the January 20 2011 Board of Directors' Meeting.
- An overview of resort Operations, including Front Desk, Housekeeping, Maintenance, Activities, Landscaping, and Fiscal Performance was presented.
- The meeting was adjourned at 1:15pm.

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

April 23, 2011 Annual Owners' Meeting Highlights

President Dr. Joseph Spirito called the meeting to order at 2:09pm.

The following actions took place:

- The April 25, 2009 Annual Meeting Minutes were approved.
- Jay Anderson, Regional Director, and Holly Ansley, General Manager introduced Department Management and provided a presentation regarding the Front Office, Maintenance, Housekeeping, Activities, green initiatives, Guest satisfaction scores, 2010 fiscal performance, resort improvements, Christel House charity. The Owner Appreciation Program was explained. Dan Zwack, ResorTime representative, outlined services available through ResorTime, Grand Pacific Exchange (GPX), and the Owner Rental Program.
- The election results were as follows: Incumbents Mary Dieckmann and Dr. Joseph Spirito were re-elected to the Board of Directors for a two-year term.
- Owner Forum topics included the excellent condition of the resort, the wonderful staff, Hilton Grand Vacations Club affiliation and the possibility of offering childcare services.
- The meeting was adjourned at 3:10pm.

Confirmation of Meeting Dates

Thursday, July 21, 2011 – 9am, Grand Pacific Palisades

Thursday, September 15, 2011 – 10am, Grand Pacific Palisades

Thursday, January 19, 2012 – 9am, Grand Pacific Palisades

Saturday, April 21, 2012 – 12:30pm, Grand Pacific Palisades

Saturday, April 21, 2012 – 2pm, Annual Owners' Meeting

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

Exchange Tips From Owner Services



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

If exchanging your week at Grand Pacific Palisades is part of your vacation plans, here are some quick, easy steps to get you started:

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



- You can contact the exchange company of your choice to deposit your week either by phone or on line.

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

- Focus on the vacation experience as well as the destination when exchanging. Think "what" before "where." With so many resorts in so many places and units and destinations not always available at all times, think about activities and experiences you would enjoy during your vacation.
- Take advantage of your vacation exchange representatives to assist you in finding the perfect destination.
- Advance planning pays off. Place your request as far as possible in advance of the dates you want to travel to maximize your chances of securing the vacation of your dreams.
- Be as flexible as possible when requesting travel dates and resort locations. Listing several options enhances your chance for a quick confirmation.
- Consider a trip in the off-season or visit a lesser known destination that offers a similar vacation experience.
- Remember that resorts may have more small units than large ones. If you are willing to accept a unit that accommodates the number of people traveling, regardless of the size of the unit you are relinquishing, you enhance your exchange opportunities.



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

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

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

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

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



Do We Have Your Current Email Address?

What is the fastest way of communicating with each other in this day and age? Email. Grand Pacific Resorts Management needs your email address; in fact you may have already received a call from resort staff asking for yours. We'd love to be able to contact you instantly with exciting news about your resort, our yearly Owner Survey, special offers and newsletters. Not only is email an excellent way for you to stay in touch with the resort staff regarding your reservations and with questions about availability, it also saves you and the association money in telephone and postage expenses.

Please take the time to call **760-342-1485** or simply email casselin@gpresorts.com to let us know your email address.

Referring your friends & family to us is a privilege.

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Vacation Ownership 101

Brought to you by Owner Services and RCI

Come and learn how to make the most of your ownership at your home resort. These complimentary classes fill up quickly and reservations are required. Please call Owner Services at 888-477-6967 to reserve your attendance and verify date, place and times.

[HGVC 101 Class Schedule](#)

July 9 & 16, August 6 & 20, September 10 & 24
All classes are on a Saturday and start at 9am, 10am or 11am.

[RCI Weeks 101 Class Schedule](#)

No Classes in July, August 13, September 17
All classes are on a Saturday and start at 10am.



Try Bonus Time... For Business Travel

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

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

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

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

32 Business Trips in 2010 Alone!

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

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

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

2 WAYS TO BOOK Nightly Bonus Time Rentals

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

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

Banking Too Many Weeks? Try Renting!

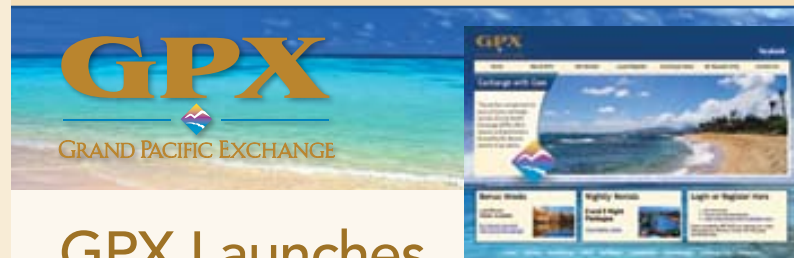
Use your existing banked weeks to find your dream vacation and consider renting your future weeks through the GPR Owner Rental Department.

Rental Program Benefits:

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

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

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



GPX Launches New Interactive Website

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

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

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

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

3 EASY STEPS To Register Your Ownership TODAY!

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

For Assistance call 866-325-6295

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

Calendar of Local Events

**Event dates and times are subject to change.*

June 24 - August 19, 2011

TGIF Jazz in the Parks

The 2011 concert season offers great music, dancing and fun for everyone every Friday evening from 6pm to 8pm. carlsbadca.gov

July 9-17, 2011

58th Annual World Championship Over-the-Line Tournament

A San Diego original, this boisterous, fast-paced beach softball event is played at Fiesta Island on Mission Bay. sandiego.org

July 20 - September 7, 2011

Del Mar Racing Season

Features the nation's top horses, trainers and jockeys, and plenty of fun in the sun. Catch 4 O'Clock Fridays, a free headliner concert following the day's last race. dmtc.com

July 21-24

San Diego Comic Con International

Comic-Con is the largest comics and pop culture event in the United States, attracting thousands of artists, celebrities and fans of

comic books, movie memorabilia and all things related to pop culture. comic-con.org

July 22-24

US Open Sandcastle Competition

This is the championship of sandcastle building where professional and amateur sand carving teams throughout the U.S. vie for the title of Master's Champion. usopensandcastle.com

September 1-5, 2011

Festival of Sail 2011

Ships from all over the world parade around San Diego Bay. The five day event includes live entertainment, a petting zoo, cannon battles, sailing, over 150 vendors, interaction with pirates, and more. sandiego.org

September 18-23, 2011

San Diego Restaurant Week

Extraordinary three course menus from the city's best restaurants. Discover a restaurant or enjoy your favorites at a discounted price! www.sandiegorestaurantweek.com

Grand Pacific Palisades Resort & Hotel

5805 Armada Dr., Carlsbad, CA 92008
760-827-3200
www.GrandPacificPalisades.com
Facebook: Grand Pacific Palisades Resort
Twitter: palisadesresort

Owner Services

5900 Pasteur Ct., Ste. 200
Carlsbad, CA 92008
888-477-6967

**International Owners 760-827-4100*

Grand Pacific Resort Management

5900 Pasteur Ct., Ste. 200
Carlsbad, CA 92008
760-431-8500

Grand Pacific Palisades Hotel Reservations

800-725-4723

Grand Pacific Palisades Owners Reservations

800-568-3515

Assessment, Billing & Collection

800-234-6222

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GRAND PACIFIC
PALISADES RESORT





GRAND PACIFIC PALISADES RESORT
OWNERS ASSOCIATION, INC.

5805 Armada Drive, Carlsbad, CA 92008

Financial Statements

December 31, 2010

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PKF

Accountants and
business advisers



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

Accountants and
business advisers

Independent Auditor's Report

The Board of Directors and Owners Grand Pacific Palisades Owners Association, Inc.

We have audited the accompanying statement of assets, liabilities and fund balance (deficit) of Grand Pacific Palisades Owners Association, Inc., as of December 31, 2010, and the related statements of revenues and expenses and changes in fund balance (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Pacific Palisades Owners Association, Inc., at December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

PKF
Certified Public Accountants
A Professional Corporation

May 31, 2011



GRAND PACIFIC PALISADES RESORT
OWNERS ASSOCIATION, INC.

Statement of Assets, Liabilities
and Fund Balance (Deficit)

December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$814,288	\$302,305	\$1,116,593
Assessments and other receivables (net)	7,750,688	429,303	8,179,991
Prepaid expenses	176,987	-	176,987
Intrafund borrowing	(300,000)	300,000	-
Due from (to) other fund	<u>(128,680)</u>	<u>128,680</u>	<u>-</u>
Total assets	<u>\$8,313,283</u>	<u>\$1,160,288</u>	<u>\$9,473,571</u>
Liabilities and Fund Balance (Deficit)			
Accounts payable and accrued liabilities	\$1,254,945	\$8,065	\$1,263,010
Due to (from) related parties (net)	1,021,326	(337,660)	683,666
Deferred assessments	<u>7,125,922</u>	<u>609,403</u>	<u>7,735,325</u>
Total liabilities	9,402,193	279,808	9,682,001
Fund balance (deficit)	<u>(1,088,910)</u>	<u>880,480</u>	<u>(208,430)</u>
Total liabilities and fund balance (deficit)	<u>\$8,313,283</u>	<u>\$1,160,288</u>	<u>\$9,473,571</u>



GRAND PACIFIC PALISADES RESORT
OWNERS ASSOCIATION, INC.

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

Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues			
Assessments	\$6,826,500	\$544,909	\$7,371,409
Interest	3,029	3,066	6,095
Front desk and other income	829,915	-	829,915
Developer subsidy	-	8,538	8,538
Property tax refund - net	<u>778,276</u>	<u>-</u>	<u>778,276</u>
Total revenues	<u>8,437,720</u>	<u>556,513</u>	<u>8,994,233</u>
Expenses			
Front office	981,343	-	981,343
Housekeeping	1,730,953	-	1,730,953
Owner relations/guest activities	330,727	-	330,727
Administration/sales	593,138	12,441	605,579
Repairs, replacements and maintenance	805,440	403,222	1,208,662
Telephone and utilities	680,185	-	680,185
Fixed expenses	2,395,843	-	2,395,843
Safety and security	113	-	113
Provision for income taxes	800	-	800
Provision for doubtful accounts	<u>433,658</u>	<u>40,874</u>	<u>474,532</u>
Total expenses	<u>7,952,200</u>	<u>456,537</u>	<u>8,408,737</u>
Excess of revenues over expenses	485,520	99,976	585,496
Fund balance (deficit), beginning of year	<u>(1,574,430)</u>	<u>780,504</u>	<u>(793,926)</u>
Fund balance (deficit), end of year	<u>\$(1,088,910)</u>	<u>\$880,480</u>	<u>\$(208,430)</u>

See notes to the financial statements



GRAND PACIFIC PALISADES RESORT
OWNERS ASSOCIATION, INC.

Statement of Cash Flows

Year Ended December 31, 2010

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
Excess of revenues over expenses	\$485,520	\$99,976	\$585,496
Adjustments to reconcile excess of revenues over expenses to net cash provided by (used in) operating activities			
(Increase) decrease in operating assets			
<i>Assessments and other receivables (net)</i>	(2,102,702)	(43,293)	(2,145,995)
<i>Prepaid expenses</i>	(9,199)	-	(9,199)
<i>Intrafund borrowing</i>	500,000	(500,000)	-
<i>Intrafund repayment</i>	(200,000)	200,000	-
<i>Due from (to) other fund</i>	(10,290)	10,290	-
Increase (decrease) in operating liabilities			
<i>Accounts payable and accrued liabilities</i>	1,189,173	(289,747)	899,426
<i>Due (from) to related parties (net)</i>	1,178,076	(30,768)	1,147,308
<i>Deferred assessments</i>	(508,174)	65,272	(442,902)
Net cash provided by (used in) operating activities	<u>522,404</u>	<u>(488,270)</u>	<u>34,134</u>
Net increase (decrease) in cash and cash equivalents	522,404	(488,270)	34,134
Cash and cash equivalents - beginning of year	<u>291,884</u>	<u>790,575</u>	<u>1,082,459</u>
Cash and cash equivalents - end of year	<u>\$814,288</u>	<u>\$302,305</u>	<u>\$1,116,593</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for income taxes			\$ <u> -</u>

See notes to the financial statements

Notes to the Financial Statements

December 31, 2010

Note 1 – Association and membership

Grand Pacific Palisades Owners Association, Inc. (the "Association") was incorporated on December 21, 1998, as a California nonprofit mutual benefit corporation with the specific and primary purpose of promoting the interests and welfare of the owners of vacation intervals situated in the project known as Grand Pacific Palisades in Carlsbad, California. The Association is comprised of Class A memberships for annual owners, Class B memberships for biennial owners, Class C memberships for vacation intervals still owned by the project's developer, and Class D memberships for units used as a facility and/or amenity within the project. Annual memberships are entitled to two votes, and biennial memberships are entitled to one vote. Class D members are entitled to one hundred and two votes for each facility/amenity owned. Vacation interval sales commenced in February 2000.

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

Note 2 – Summary of significant accounting policies

Basis of accounting

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

Fund accounting

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

Cash equivalents

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

Concentration of credit risk

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

Assessments and deferred assessments

For the year ended December 31, 2010, each annual vacation membership owner was generally assessed \$895 for a luxurious two bedroom unit, \$880 for a three bedroom unit, \$770 for a two bedroom unit and \$720 for a one bedroom unit, inclusive of the replacement fund assessment. Biennial vacation membership assessments are one-half of the annual membership assessment amount. Under this program, units within the unit type originally purchased can be used once every two years.

The 2011 annual assessments are \$935, \$919, \$802 and \$747, respectively, inclusive of replacement fund assessment, and are included in deferred assessments until earned.

Allowance for doubtful accounts

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

All assessments are due and payable within ten days after the interval owner is billed. Interest, at rates determined by the Board, is charged on delinquent assessments. The Association may suspend rights and privileges of interval owners with delinquent assessments as defined in the by-laws. The Association's policy is to write-off all unpaid assessment receivables after all efforts to collect have been exhausted. Subsequent collection is recognized as bad debt recovery in the year received, which is netted with the provision for doubtful accounts on the statement of revenues, expenses and changes in fund balance (deficit).

Property and equipment

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

Replacement fund assessments

The Association has designated certain amounts as replacement funds to provide for the payment of future repair and rehabilitation expenditures, as specifically approved by the Association's Board of Directors. The Association's replacement fund program is subject to a reserve analysis study. The most recent study conducted in 2010 was prepared by Hughes Reserves, who specialize in the preparation of reserve studies. The preparation of the reserve

analysis is based upon certain assumptions in regards to existing reserve fund balances, inflation and investment rate factors, the estimated life span and the current cost of the reserve items. Furthermore, there will usually be differences between the projected and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

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

Presentation of certain taxes

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

Use of estimates

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

Subsequent events

Subsequent events are events or transactions that occur after the statement of assets, liabilities and fund balance (deficit) date but before the financial statements are available to be issued. The Association evaluates all subsequent events and transactions to determine whether any transaction needs to be recognized or disclosed. The Association has evaluated all subsequent events through May 31, 2011, which is the date the financial statements are available to be issued, and has determined no events or transactions need to be recognized or disclosed in these financial statements, except as disclosed on Note 6 (intrafund borrowing).

Note 3 – Related parties

Management agreement

The Association is operated under a management agreement with a professional property management company, Grand Pacific Resort Services, L.P., (GPRS) a California limited partnership, an affiliate of both the Association and developer. The Association's management budget is within guidelines established by the Department of Real Estate. Management fees under this agreement were \$596,253 for the year ended December 31, 2010, of which \$559,596 is allocated as fixed expenses under the operating fund and \$36,657 is allocated as repairs, replacements and maintenance under the replacement fund.

In addition, the Association shall compensate GPRS and other affiliated companies for other services provided, including but not limited to assessments billing and collection, accounting and computer services, file and reservation system maintenance, owner relations service, and Board of Directors and members meetings coordination. The Association also reimburses GPRS for any out of pocket expenses paid. At December 31, 2010, the Association owed GPRS and other affiliated companies \$413,187 for services provided.

Developer subsidy

In accordance with the limited subsidy agreement between the Association and the project's developer, the developer has agreed, subject to certain limitations, to pay the Association for the excess of operating expenses over revenues and the replacement fund assessment for unsold vacation ownership units, as defined. This subsidy arrangement continues until the Agreement is terminated by the developer. Upon termination of the agreement, the developer will become responsible for the assessments pertaining to unpurchased vacation plans. For the year ended December 31, 2010, a subsidy of \$8,538 was required. At December 31, 2010, the developer owed the Association \$289,391, not including the amounts stated in the following paragraph.

During 2010, the Association and the Developer agreed to recalculate the subsidy from 2002 to 2009 to include assessment billings previously deferred for the payment of property taxes. In accordance with the Covenants, Conditions and Restrictions (CCR's), basic expenses include all real and personal property taxes assessed against the each vacation interval owner and the regular annual assessment revenue include billings to the interval owners for the payment of real and personal property taxes. From 2002 to 2009, the subsidy calculation did not include deferred assessment revenue to interval owners due to under billings of property taxes by the County. The County ultimately billed the Association for real and personal property taxes of approximately \$2.4 million in 2008 for several years of property taxes. The Developer and Association filed a successful appeal to have the assessed valuation reduced resulting in a refund of \$2 million in 2010. As a result of the successful appeal, the Association and the Developer have agreed to recalculate the subsidy resulting in a portion of this refund being allocated to the Developer for the overpayment of subsidy from 2002 through 2009. As of December 31, 2010, the Association and Developer have agreed to allocate, after the payment of consulting fees, \$604,283 to the Developer and \$778,302 to the Association.

Cost-sharing agreement

The Association has entered into a cost-sharing agreement with Grand Pacific Palisades Hotel to share common operating costs. These expenses shall be shared between the Association and the Hotel based on the burden each places on the property, as measured by such factors as the number of rooms, square footage of rooms, occupancy rates and occupants per unit. At December 31, 2010, generally the allocation percentages for the Association and the Hotel were 75% and 25%, respectively. Under the cost-sharing agreement, the Hotel owed the Association \$44,413 at December 31, 2010.

Unit week inventory

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

Inventory management agreement

The Association entered into an inventory management agreement with GPRS. Under this agreement, GPRS will use its centralized management of resort interval inventory to maximize owner use of the property, ensure quality outbound exchanges for owners who wish to vacation elsewhere, and GPRS will guarantee the transient room revenue the Association budgeted for the upcoming year. The Association agrees to permit GPRS to manage, allocate and control resort room inventory, and to use all room inventory that is not occupied by either owners or exchanges. The Association recognized \$361,709 in guaranteed room revenue for the year ended December 31, 2010.

Note 4 – Income taxes

For federal tax purposes, the Association is taxed under Internal Revenue Code Section 528 as an exempt organization. The Association is taxed on its non-exempt income less expenses directly connected with the production of the non-exempt income. Exempt function income is not subject to tax. Income tax is calculated at 32% of taxable income. For state tax purposes, the Association is organized as a non-exempt membership organization and is taxed on its excess nonmember income (principally interest and usage by nonmembers) at the normal corporate tax rates. State income taxes for 2010 totaled \$800. There were no federal income taxes in 2010.

Uncertain tax positions

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

Note 5 – Operating lease

Effective March 15, 1999, the Association has leased telecommunication equipment from GPRS. The Association has also granted GPRS the exclusive right to provide local and long distance services and operator assisted services. The term of the lease is ten years and is automatically renewable for an additional five years, unless terminated in accordance with the lease agreement. The Association pays approximately \$5,158 per month (subject to annual cost of living increases) for the leased equipment and remits user charges in accordance with the agreement. Telephone expense of \$95,136 at December 31, 2010 included operating lease payments and charges incurred with long distance carriers.

Future minimum lease payments are as follows:

Year Ending December 31	
2011	\$64,368
2012	64,368
2013	64,368
2014	16,092
Total	<u>\$209,196</u>

Note 6 – Intrafund borrowing

The Board of Directors authorized two transfers totaling \$500,000 from the replacement fund to the operating fund to cover 2010 operating expenses. The funds will be repaid to the replacement fund when the 2011 assessment billings are collected. As of December 31, 2010, \$200,000 has been repaid to the replacement fund and \$300,000 is outstanding. In January 2011, the outstanding balance was repaid.

Supplementary Information on Future Major Repairs and Replacements

December 31, 2010 (Unaudited)

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

The following table is based on the 2010 study and presents a condensed summary of information about the items of property. Estimated current replacement costs are based on the assumptions that inflation rate and interest rate are 2% and 1.5%, respectively.

Components	Estimated Remaining Life in Years	Estimated Current Replacement Costs	Recommended 2010 Funding Requirement
Buildings	0-18	\$7,573,658	\$613,478
Furniture and fixtures	0-6	4,003,642	324,300
Totals		<u>\$11,577,300</u>	<u>\$937,778</u>