#### THE JONATHAN ASSOCIATION

CHASKA, MINNESOTA

### AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

#### TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Balance Sheets	2
Statements of Revenues and Expenses	3
Statements of Changes in Membership Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6
SUPPLEMENTARY INFORMATION	
Supplementary Information on Future Major Repairs and Replacements	10

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To the Board of Directors of The Jonathan Association Chaska, Minnesota

Accountable.

#### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheets of The Jonathan Association as of September 30, 2009 and 2008, and the related statements of revenues and expenses, changes in membership equity, and 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 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 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 The Jonathan Association as of September 30, 2009 and 2008, and the results of its operations 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 10 is not a required part of the basic financial statements but is supplementary information required by account 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.

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Certified Public Accountants

February 18, 2010

Member of
Minnesota Society
of Certified Public
Accountants

American Institute
of Certified Public
Accountants

**AUDITED FINANCIAL STATEMENTS** 

#### THE JONATHAN ASSOCIATION NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - NATURE OF ORGANIZATION

The Jonathan Association was incorporated on June 2, 1971, in the State of Minnesota. The Association is responsible for the operation and maintenance of the common property within the Jonathan New Town development.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year-end are retained by the Association for use in future years.

#### Cash and Cash Equivalents

The Association considers all highly liquid investments with an original maturity of three months or less as cash. The Association maintains cash in checking, money market savings accounts, and certificates of deposit.

#### Assessments Receivable

Assessments receivable at the balance sheet date represents fees due from unit owners. The Association's policy is to charge a late fee and place liens on the property of accounts that are past due. This may ultimately involve foreclosure on the property after other attempts of collection have failed. The Association had delinquent assessments receivable of \$267,076 and \$179,075 at September 30, 2009 and 2008, respectively. During the year ended September 30, 2009, the Board established an allowance for doubtful accounts totaling \$25,000 that reflect the uncertainty of collection of certain past due accounts. There was no allowance for doubtful accounts at September 30, 2008.

#### Equipment and Property Improvements

Equipment and property improvements are stated at cost and are being depreciated using the straight-line and accelerated methods over their estimated useful lives of the assets ranging from five to ten years. Items such as the buildings, sidewalks, roadways, and land that the Association holds title to are recognized as assets. In conformity with industry practice, the Association's policy is to recognize the following common property as assets:

- a) Common personal property.
- b) Common real property to which it has title and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members or from nonmembers on the basis of usage.

Depreciation expense for the years ended September 30, 2009 and 2008 totaled \$49,171 and \$62,775, respectively.

# THE JONATHAN ASSOCIATION NOTES TO FINANCIAL STATEMENTS (Continued)

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

#### Income Taxes

The Association has elected to be exempt from taxation under Section 501(c)(4) of the Internal Revenue Code. No provision for income tax is necessary.

#### 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.

#### Concentrations of Credit Risk

The Association places its cash and cash equivalents with high-credit, quality institutions. Occasionally, such balances may exceed the FDIC insurance limits. On October 1, 2009, FDIC insurance coverage increased to \$250,000 until December 31, 2013. At September 30, 2009 and 2008, the Association did not have any excess deposits. The Association believes that no significant concentration of credit risk exists with respect to cash and cash equivalents.

#### Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 18, 2010, the date that the financial statements were available to be issued.

#### Reclassifications

Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform with presentation in the current year financial statements.

#### NOTE 3 - PROMISSORY NOTE

During the year ended September 30, 2006, the Association obtained a promissory note from Genesis Homes & Associates, LLC. The promissory note relates to the other receivable amount of \$12,454 at September 30, 2005. The amount is due to the Association from the downpayment on the garage construction that did not occur. The note accrues interest at a rate of 10 percent through March 15, 2008. Monthly payments are \$1,149. The balance of the promissory note as of September 30, 2006 was \$12,836, including accrued interest of \$779. The Association did not receive any payments nor accrue any interest on the note during the years ended September 30, 2009 and 2008.

# THE JONATHAN ASSOCIATION NOTES TO FINANCIAL STATEMENTS (Continued)

#### NOTE 4 - RESTRICTED ACCUMULATED EQUITY

The Board of Directors, as required by the bylaws of the Association, restricts annually an amount allocated to capital improvements, future maintenance, repairs, and replacements. Actual expenses for major repair and replacement expenditures are funded from excess operating fund assessments as incurred.

During the years ended September 30, 2009 and 2008, the Association restricted \$82,000 and \$82,500, respectively, for future replacements.

Amounts restricted for future replacements are reflected in current assets on the balance sheet.

The Association conducted a study in 2009 to determine the estimated useful lives of the components of common property. Allocations for funding capital improvements, future maintenance, repairs, and replacements are based on the study's estimates of current replacements costs, considering amounts previously allocated to restricted accumulated equity. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in restricted accumulated equity may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

#### NOTE 5 - COMMITMENTS AND CONTINGENCIES

The Association has entered into various contracts relating to snow removal, lawn care, and grounds maintenance, accounting services, and management services.

During the period of October 2006 through July 2008, it was alleged that a former employee of the Association made unauthorized purchases on an Association credit card. The Association has concluded its investigation and the claim has been finalized. As a result of the claim, the Association received \$24,832 from their insurance provider on January 15, 2009, and, in addition, received \$9,000 from the former employee on October 10, 2009. As the settlement from the former employee was not received until after September 30, 2009, \$9,000 is recorded as a miscellaneous receivable on these financial statements.

#### NOTE 6 - DECLARATORY JUDGMENT ACTION

On October 9, 2008, the Association's Board of Directors authorized commencement of a declaratory judgment action to determine the validity of the annexation of neighborhoods brought into the Jonathan Association by developers other than Jonathan Development Corporation. This occurred after the HUD foreclosure and the purchase in 1980 of the foreclosed property by the First National Bank of Saint Paul. The action has not yet been filed and the Association is unable to determine what outcome will result or an estimate of losses, if any. This action will not request monetary relief.

# THE JONATHAN ASSOCIATION NOTES TO FINANCIAL STATEMENTS (Continued)

#### NOTE 7 - UNCERTAINTY IN INCOME TAXES

The Association has evaluated for uncertain tax positions and management has expressed no uncertain tax positions as of September 30, 2009. Tax returns for the past three years remain open for examination by tax jurisdictions.

The Association recognizes loss contingencies, including income taxes, when it is probable that a liability has been incurred and can be reasonably estimated. The recognized amount is subject to estimation and management's judgment with respect to the likely outcome of each potential uncertain tax position. The amount that is sustained for each uncertain tax position or for all uncertain tax positions in the aggregate, could differ from the amount recognized.

# THE JONATHAN ASSOCIATION SCHEDULE 1 – SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

In November 2009, the Board of Directors adopted a reserve study. The study estimates the remaining useful lives and the replacement costs of the components of common property. Replacement costs are based on estimated costs to repair or replace the common property components at the date of the study, assuming an annual inflation rate of 3.4 percent. The Association has not designated amounts to the individual components.

The following information is based on the study and presents significant information about the components of common property. Estimated Future Replacement Costs on the date of the study are \$6,313,288. Funds restricted for future replacements totaled \$521,923 and \$480,914 at September 30, 2009 and 2008, respectively. See attached schedule.

SUPPLEMENTARY INFORMATION

# RESERVE FUNDING PLAN

# CASH FLOW ANALYSIS The Jonathan

Association		Individual Reserv	arve Budgets	& Cash Flow	s for the Nex	d 30 Years										
Chaska, Minnesota	FY2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Reserves at Beginning of Year (Note 1)	N/A	133,931	182,777	66,915	84,850	45,713	61,000	123,421	263,396	411,961	583,166	662,294	807,364	964,845	1,104,842	,192,970
Total Recommended Reserve Contributions (Note 2)	. N/A	200,744	210,700	215,700	220,700	183,000	189,200	195,600	202,300	209,200	216,300	223,700	231,300	239,200	ı	255,700
Plus Estimated Interest Earned, During Year (Note 3)	ΝΆ	3,601	2,839	1,725	1,484	1,213	2,097	4,398	7,678	11,314	14,160	16,709	20,149	23,531	ı	28,668
Less Anticipated Expenditures, By Year	A/N.	(155,499)	(329,401)	(199,490)	(261,321)	(168,926)	(128,876)	(60,023)	(61,413)	(49,309)	(151,332)	(95,339)	(83,368)	(122,734)		(148,735)
Anticipated Reserves at Year End	\$133,931	13,031 182,777 66,915	66,915 84,850 45,713 61,000 (NOTE 4)	84,850	45.713 (NOTE 4)	61,000	123.421	263,396	411,961	583.166	662,294	807,364	964,845	1,104,842	1,192,970	1.328,603
Predicted Reserves based on 2009 funding level of: \$200,744	00,744 0	201,000	402,000	603,000	804,000	, 0005,000,	,206,000	1,407,000	1,608,000 1	, 000,608,	2,010,000	2,211,000	2,412,000	2,613,000	2,814,000	3,015,000
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(continued)	Individual Reser	erve Budget	s & Cash Flor	vs for the Ne	xt 30 Years, I	Continued									
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Reserves at Beginning of Year	1,328,603 1	1,540,545	1,371,314	806,300	682,375	69,324	221,190	384,191	363,538	533,983	ı	517,974	596,946	662,541	838,043
Total Recommended Reserve Contributions	264,400	273,400	282,700	292,300	302,200	175,000	181,000	187,200	193,600	200,200	1	214,000	221,300	228,800	236,600
Plus Estimated Interest Earned, During Year	32,620	33,106	24,758	16,925	8,546	3,303	6,655	8,274	10,204	12,600	l	12,676	14,319	17,061	19,989
Less Anticipated Expenditures, By Year	(85,078)	(475,737)	(872,472)	(433,150)	(923,797)	(26,437)	(44,654)	(196,127)	(33,359)	(172,492)		(147,704)	(170,024)	(70,359)	(174,501)
Anticipated Reserves at Year End	1,540,545	1.371,314	45 1.371.314 806.300 692.375 69.324 221.190 3	682,375	69.324 (NOTE A)	221,190	364.191	363,538	533,983	574,291	517,974	596,946	662,541	838,043	920.131
Predicted Reserves based on 2010 funding level of: \$200,744	1,223,000	973,000	316,000	88,000	(641,000)	(479,000)									

# Explanatory Notes:

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Year 2009 starting reserves are as of October 20, 2009; FY 2010 starts October 31, 2009 and ends September 30, 2010.

Reserve Contributions for 2010 are budgeted, 2011 is the first year of recommended contributions.

2.3% is the estimated annual rate of return on invested reserves.

Threshold Funding Year (reserve balance at critical point).

Accumulated year 2039 ending reserves consider the need to fund for subsequent walking path replacements and the age, size, overall condition and complexity of the property.

		for The Jonathan Aesociation Chests Minnetols						Explan 1) 3.4% 2) FY 20	istory Notei: , is the endir no is Fiscal Ye	Explanatory Notes:  () 2.4% In the estimated frame inferior field for estimating Fabro Replacement () 2.4% In the estimated frame in 12.200 and ending September 32, 2019.	Jebon Rate fo. clober 1, 200	r estimating f	oture Replace Septumber 33,	ment Costa. 2010.		٠.						
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g 4 4 Each Mailboxes, Melai		2021	82	500.00	6,000	10,953																10,953		
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	Karea House Elements 2016 (2016) (2016)	802 803	Zio 18	6.800.00	2800	E R	· · · · · · · · · · · · · · · · · · ·		121			y. L		7 R36		i M		E S	i.	S.	*	1		
3 1 Albwance Interior Renovations		2015	8.0°	13,200.00,	13,200	20,05					16,132			3		3. 3. ; \$				22,637				,
	jies (includes griffers and downspouts)	Ē	Shzō, 2.	280,00	969	7,03		7,441	4.														2	Ī
	F	2048	la 35 10	40.00	8,000	11,176								-	11,175	:								,
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102 2 1 Allowance Building Services Equipment	supposed certifolds	2012 1	12 to 18 3	5,000.00	5,000	14,365			5,528												129'8			

RESERVE EXPENDITURES for The Jonathan Association Checks Richeston

Explandoxy Mobals:
1) 3.4% is the ordinated future Inflation Rate for estimating Future Replacement Cests.
2) FY 2610 In Flexal Year Replicating October 1, 2019 and enabling Serokember 31, 2019.

Marketon   India Formation   India Formation   Court, September   India Formation   India Format	Quantifion: 30-Year Pa	30-Year Per			Estimated 1st Year of	Life Avaigate, Years	e E	Replacement	at Costs of		(See Notes 1 & 2)	~	es	4	9		mi.	æ				13 14				ā	\$	
2012   1874   18   18   18   18   18   18   18   1	Total	P P P P	2	Reserve Component Inventory	Replacement	Useful Remai		per Phase,	S Represente.	ţ.		2041					2017	2018								2027	2028	2 2 2 3
2012         is 50         3         78 (Altono)         18,500         20,341           2022         is 10         41 (Altono)         11,400         1,400         4,225         17,535           2021         is 50         6         2,200         4,400         4,600         6,473         6,511           2014         is 50         6         2,200         4,400         4,600         6,473         6,511           2014         is 50         6         2,000         4,600         1,500         6,513           2014         is 50         6         2,000         4,500         1,500         6,513           2015         is 50         6         2,000         1,500         1,500         6,513           2016         is 50         6         2,000         1,500         1,500         6,513           2016         is 50         6         2,000         1,500         1,500         6,510           2017         is 50         1,500         1,500         1,500         1,500           2017         1,500         4,500         4,500         4,500	· <del>-</del>		Afortance	Exterior Renovation, Near Term	2012	N/A	16.800.		`	15	ŀ		15.58		[ ].			-	-		  -					l.		L
2022         16 10 12         14 Actual 14 (200.0)         14 Actual 15 (200.0) <th< td=""><td>,</td><td>1. IA</td><td>Allowance</td><td></td><td>2012</td><td>92.0</td><td>18 400</td><td></td><td>. C</td><td>ā</td><td></td><td></td><td>20341</td><td></td><td></td><td>2</td><td></td><td>+ <i>2</i></td><td>ż</td><td></td><td></td><td></td><td>: -</td><td></td><td></td><td>. 11</td><td></td><td></td></th<>	,	1. IA	Allowance		2012	92.0	18 400		. C	ā			20341			2		+ <i>2</i>	ż				: -			. 11		
2021         (5 to 20)         4,225         1,331           2019         to 35         to 400         4,475         6,475           2014         3 to 5         2 to 4,400         4,400         4,400         4,400           2015         to 2 to 4,400         4,400         1,530         1,530         1,530           2015         to 2 to 4,500         1,530         1,530         1,530         1,530           2016         to 2 to 4,500         1,530         1,530         1,530         1,530           2017         to 2 to 4,500         1,530         1,530         1,530         1,530           2017         to 2 to 4,500         1,530         1,530         1,530         1,530           2018         to 3,500         1,530         1,530         1,530         1,530           2019         1,530         1,530         1,530         1,530         1,530           2010         1,500         1,530         1,530         1,530         1,530           2011         2         2         4,500         4,500         1,500	~	<u>.</u>	ABOWERCE		202	13	11 400		. :	203			۲			·.	• ; .		:		17.6	*					2	
2019         15.35         10         4600         4,400         4,50	ĸ	135	Squares		202	_	SS			33										46								
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2014         3 to 5         2 to 0         4,400         4,600 <t< td=""><td></td><td></td><td></td><td>Property Site Elements</td><td>•</td><td>: :';</td><td>٠.</td><td>1</td><td></td><td>•</td><td>:</td><td></td><td>:</td><td></td><td></td><td></td><td></td><td></td><td>•</td><td></td><td></td><td></td><td></td><td>:</td><td></td><td></td><td></td><td></td></t<>				Property Site Elements	•	: :';	٠.	1		•	:		:						•					:				
2010   15 to 2011   25,00   47,200   165,541   34,446   166,541   34,446   166,693   194,446   166,693   194,446   166,693	13,200	2,200 S	Square Yand	S. Asphalt Parement, Parking Areas, Crack Repair, Petch and Seid Cool	NAME OF	305 6	7	24.	0 48	119				63				198			ti.	y	: '					٠, .
Each   Genetic	400	2,200 \$	Square Yard	s Asphalt Pavement, Parking Areas, Total Replecement	2010	151520			Ī	28.1	18 18 18	Υ.		67 17							ř			÷		194 A1K	٠,	
2 Exist         Light Police and Policy Months Month Policy         2 Exist         Light Policy and Policy         4 200 10 4,200 13,300 24,301         5,133         91,577           7-800 Square Field Policy Month Policy Polic	-	 	Each	Gezebo	2024	15 to 25 15				. 629	7				,								18 659		÷		 -:	
Table States Feet Protein Brief Replacements         2022         10 to 16         13         50.580         342,897         15,600         34,587         15,600         34,587         15,600         34,587         15,600         34,587         15,600         35,500         35,500         35,779         35,000         35,500	*	2.5	Esch	Light Pokes and Fixtures, Keren House, Phased	2015	b 25 6	2,100.			330					5.133													A 107
3-bit Square feet Relativity Wolf, Inhobit Population         2016 (15-bit 20)         40.597 <t< td=""><td>2,800</td><td></td><td>Square Feet</td><td>Payers, Brick, Resetting and Partial Replecements</td><td>202</td><td>10 to 15 13</td><td></td><td></td><td></td><td>209</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>2</td><td>20</td><td></td><td></td><td></td><td></td><td></td><td>5</td></t<>	2,800		Square Feet	Payers, Brick, Resetting and Partial Replecements	202	10 to 15 13				209											2	20						5
2010 145 ha 20 7 2500 7 7500 7 25.779  2010 144 1 85.000 85.000 85.000 85.000 85.000 7 2000 7	89	•	Squere Feet	Retaining Walls, Timber, Pavition	2013	13 13 13 13 13 13 13 13 13 13 13 13 13 1				38			. ₹							. '	÷.		Ċ		(			
Workshill (Model)         2009 (Model)         4500 (Model)         13,850 (Model)         14,850 (	ф	Ē.	5	Signage, Keren end Ellel Houses	9162	15 b 20 7	25001			£			:			9478									÷.			
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The second secon		۲.	Alowence	Roserve Study Update with Site Visit	201	2	4,500.0			200		4,500																
				Antichoted Fernandhuma Ro Vesa		i   			1 25	"	1 69	`.   `.   .					1		1	1								