

THE JONATHAN ASSOCIATION

CHASKA, MINNESOTA

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED SEPTEMBER 30, 2009 AND 2008

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CERTIFIED PUBLIC ACCOUNTANTS

Accountable.

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

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.

HG&K LTD.

HG&K, Ltd.
Certified Public Accountants

February 18, 2010

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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

Chaska, Minnesota

Individual Reserve Budgets & Cash Flows for the Next 30 Years

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	807,364	964,845	1,104,842	1,192,970
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	231,300	239,200	247,300	255,700
Plus Estimated Interest Earned, During Year (Note 3)	N/A	3,601	2,839	1,725	1,484	1,213	2,097	4,398	7,678	11,314	14,160	20,149	23,531	28,124	28,668
Less Anticipated Expenditures, By Year	N/A	(155,499)	(329,401)	(198,490)	(261,321)	(168,926)	(60,023)	(61,413)	(49,308)	(151,332)	(93,339)	(93,968)	(122,734)	(185,296)	(148,735)
Anticipated Reserves at Year End	\$133,931	182,777	66,915	84,850	45,713	61,000	123,421	263,396	411,961	583,166	807,364	964,845	1,104,842	1,192,970	1,328,603
Predicted Reserves based on 2009 funding level of: \$200,744															

(continued)

Individual Reserve Budgets & Cash Flows for the Next 30 Years. Continued

2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	
Reserves at Beginning of Year	1,328,603	1,540,545	1,371,314	806,300	682,375	69,324	221,190	364,191	363,538	533,983	574,291	517,974	596,946	662,541	
Total Recommended Reserve Contributions	264,400	273,400	282,700	292,300	302,200	175,000	181,000	187,200	193,600	200,200	207,000	214,000	221,300	228,800	
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	12,418	12,676	14,319	19,989	
Less Anticipated Expenditures, By Year	(85,078)	(475,737)	(672,472)	(433,150)	(923,797)	(26,437)	(44,654)	(186,127)	(33,359)	(172,492)	(275,735)	(147,704)	(170,024)	(70,359)	
Anticipated Reserves at Year End	1,540,545	1,371,314	806,300	682,375	69,324	221,190	364,191	363,538	533,983	574,291	517,974	596,946	662,541	920,131	
Predicted Reserves based on 2010 funding level of: \$200,744															

Explanatory Notes:

- 1) Year 2009 starting reserves are as of October 20, 2008; FY 2010 starts October 31, 2009 and ends September 30, 2010.
- 2) Reserve Contributions for 2010 are budgeted; 2011 is the first year of recommended contributions.
- 3) 2.3% is the estimated annual rate of return on invested reserves.
- 4) Threshold Funding Year (reserve balance at critical point).
- 5) 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.

RESERVE EXPENDITURES

for
The Jonathan
Association
Chaska, Minnesota

Details:

Line Item	30-Year Per	Phase	Units	Reserve Component Inventory	Estimated 1st Year of Replacement	Life, Years	Useful	Remaining	Unit Cost, \$	2019 Cost of Replacement, \$ per Phase	2019 Cost of RUL = 0	Estimated Future Initiation Rate for estimating Future Replacement Costs														
												1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Neighborhood #1 Elements																										
1	64,000	12,800	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2015	15 to 5	6		1.00	12,800	154,880	14,666	16,764	18,163	19,163	21,655										
2	24,000	4,800	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement, Paved	2011	15 to 2	2		15.25	6,000	95,314	66,270	67,436	68,116	70,601	71,832										
3	1	1	Each	Bus Shelter, Wood, Replacement	2027	15 to 20	15		3,000.00	3,000	3,000															
4	7	7	Each	Mailboxes, Metal	2027	15 to 25	15		4,000.00	4,000	16,167															
5	3	3	Each	Mailboxes, Metal with Wood Frame	2015	15 to 25	15		2,400.00	7,200	8,798	3,199														
6	1	1	Each	Playground Equipment, Metal	2018	15 to 25	20		25,000.00	25,000	59,744															
7	720	360	Square Feet	Refracting Walls, Timber	2011	15 to 25	2		30.00	10,800	38,184															
8	2	1	Each	Springs, Entrance, Wood	2016	15 to 20	7		2,900.00	2,900	8,926	11,547														
Neighborhood #2 Elements																										
9	1,360	272	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2014	15 to 5	5		1.00	272	2,487															
10	480	960	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement	2010	15 to 15	1		15.25	3,000	6,616	3,027														
11	1	1	Each	Mailboxes, Metal with Wood Frame	2018	15 to 25	9		2,400.00	2,400	3,243															
12	2	1	Each	Springs, Entrance, Wood	2016	15 to 20	7		2,900.00	2,600	8,935	3,169														
Neighborhood #3 Elements																										
13	12,000	2,400	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2016	15 to 5	7		1.00	2,400	24,111	3,718														
14	4,000	2,000	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement	2012	15 to 15	3		15.25	3,000	8,934	3,718														
15	1	1	Each	Mail Pavilion, Wood, Refurbishment	2027	15 to 20	16		3,000.00	3,000	5,476															
16	8	8	Each	Mailboxes, Metal	2019	15 to 25	10		1,500.00	12,000	15,744															
17	2	1	Each	Springs, Entrance, Wood	2016	15 to 20	7		2,900.00	2,600	8,926	3,169														
Neighborhood #4 Elements																										
18	2,940	490	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2014	15 to 5	5		1.00	490	5,287	579														
19	960	480	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement	2010	15 to 15	1		15.25	7,473	25,485	7,727														
20	1	1	Each	Mail Pavilion, Wood, Refurbishment	2027	15 to 20	18		3,000.00	3,000	5,476															
21	17	7	Each	Mailboxes, Metal	2011	15 to 25	8		1,500.00	10,500	13,724															
22	1	1	Each	Mailboxes, Metal with Wood Frame	2017	15 to 25	9		2,400.00	2,400	3,199															
23	2	1	Each	Playground Equipment, Metal	2021	15 to 25	12		24,000.00	24,000	61,285	31,967														
24	2	1	Each	Springs, Entrance, Wood	2016	15 to 20	7		2,900.00	2,600	8,926	3,169														
Neighborhood #5 Elements																										
25	2,700	420	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2015	15 to 5	6		1.00	420	4,419	1,467														
26	2,400	1,200	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement	2011	15 to 15	2		15.25	48,000	51,074	15,566														
27	2	1	Each	Springs, Entrance, Wood	2016	15 to 20	7		2,900.00	2,600	8,926	3,169														
Neighborhood #6																										
28	3,000	600	Square Yards	Asphalt Pavement, Backshell Court, Total Replacement	2015	15 to 20	6		24.00	14,400	177,287	17,559														
29	27,000	4,500	Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2016	15 to 5	6		1.00	4,500	50,311	6,570														
30	8,000	4,000	Linear Feet	Asphalt Pavement, Walking Paths, Total Replacement	2011	15 to 15	2		15.25	60,625	144,520	16,311														
31	3	3	Each	Hop Ponds and Box Structures, Wood, Refurbishment	2027	15 to 20	16		9,000.00	9,000	16,429															
32	5	5	Each	Mailboxes, Metal	2019	15 to 25	10		1,500.00	7,500	16,478															
33	3	3	Each	Mailboxes, Metal, HI IFS	2027	15 to 25	18		1,500.00	4,500	8,215															
34	1	1	Each	Playground Equipment, Metal	2024	15 to 25	15		18,900.00	18,900	50,548	10,478														

RESERVE EXPENDITURES

for
The Jonathan
Associatum
Circle, Minnesota

Estimator's Notes

- 1) 3.4% is the estimated future inflation rate for estimating Future Replacement Costs.
- 2) FY 2018 is Fiscal Year beginning October 1, 2009 and ending September 30, 2010.

Line Item	30-Year Per Total	Unit	Reserve Component Inventory	Estimated 1st Year of Replacement	Life Span, Years	Unit Remaining	Cost per Phase, \$	2009 Cost of Replacement, \$	Total Future Costs of Replacement, \$	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030						
35	4	2 Each	Storage, Entrance, Wood	2016	15 to 20	7	2,300.00	5,000	17,832						6,338																					
36	44,400	7,400 Linear Feet	Neighborhood #1 Elements Asphalt Pavement, Walking Paths, Crack Repair and Patch	2015	3 to 5	6	1.00	7,400	62,716		10,328																									
37	14,800	7,400 Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2011	10 to 15	4	15.25	112,950	316,882																											
38	5	5 Each	Mail Pathways, Wood, Rehabilitation	2027	10 to 20	18	3,000.00	15,000	27,382																											
39	18	18 Each	Mailboxes, Metal	2015	15 to 25	6	1,500.00	27,000	27,998																											
40	1	1 Each	Playground Equipment, Metal	2019	15 to 25	20	26,000.00	26,000	50,744																											
41	2	1 Each	Playground Equipment, Wood	2011	15 to 25	2	24,000.00	24,000	72,551																											
42	8	4 Each	Storage, Entrance, Wood	2016	15 to 20	7	2,300.00	10,000	33,795							12,537																				
43	18,000	3,000 Linear Feet	Neighborhood #2 Elements Asphalt Pavement, Walking Paths, Crack Repair and Patch	2017	3 to 5	6	1.00	3,000	32,674																											
44	7,200	3,600 Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2013	10 to 15	4	15.25	54,800	165,291																											
45	2	2 Each	Mail Pathways, Wood, Rehabilitation	2027	10 to 20	18	3,000.00	5,400	10,833																											
46	7	7 Each	Mailboxes, Metal	2019	15 to 25	10	1,500.00	10,500	14,069																											
47	1	1 Each	Playground Equipment, Metal	2029	15 to 25	20	33,500.00	33,500	65,382																											
48	400	400 Square Feet	Residing Mail, Stone Masonry (replace with interlocking masonry)	2014	6 to 35	6	40.00	16,000	18,911																											
49	2	1 Each	Storage, Entrance, Wood	2016	15 to 20	7	2,300.00	2,600	8,399																											
50	18,000	3,000 Linear Feet	Neighborhood #2 Elements Asphalt Pavement, Walking Paths, Crack Repair and Patch	2016	3 to 5	7	1.00	3,000	34,675																											
51	6,000	3,000 Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2012	10 to 15	3	15.25	45,750	134,091																											
52	1	1 Each	Mail Pathways, Wood, Rehabilitation	2027	10 to 20	18	3,000.00	3,000	5,476																											
53	4	4 Each	Mailboxes, Metal	2015	15 to 25	6	1,500.00	9,000	7,324																											
54	1	1 Each	Playground Equipment, Metal	2029	15 to 25	20	33,500.00	33,500	66,381																											
55	4	2 Each	Storage, Entrance, Wood	2016	15 to 20	7	2,300.00	5,000	17,852																											
56	12,500	2,500 Linear Feet	Neighborhood #10 Elements Asphalt Pavement, Walking Paths, Crack Repair and Patch	2017	3 to 5	8	1.50	2,500	22,939																											
57	6,000	3,000 Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2013	10 to 15	4	15.25	45,750	120,518																											
58	3	3 Each	Mail Pathways, Wood, Rehabilitation	2027	10 to 20	18	3,000.00	3,000	5,429																											
59	7	7 Each	Mailboxes, Metal	2019	15 to 25	10	1,500.00	15,000	14,459																											
60	4	2 Each	Mailboxes, Metal, Free Standing	2012	15 to 25	3	1,500.00	3,000	10,968																											
61	1	1 Each	Playground Equipment, Metal	2029	15 to 25	20	28,500.00	28,800	56,229																											
62	2	2 Each	Storage, Entrance, Stone, Rehabilitation	2026	15 to 20	16	5,000.00	10,200	17,415																											
63	40,000	8,000 Linear Feet	Neighborhood #11 Elements Asphalt Pavement, Walking Paths, Crack Repair and Patch	2017	3 to 5	8	5.00	8,000	79,053																											
64	16,000	8,000 Linear Feet	Asphalt Pavement, Walking Paths, Crack Repair and Patch	2013	10 to 15	4	15.25	122,000	384,080																											
65	4	4 Each	Mail Pathways, Wood, Rehabilitation	2027	10 to 20	18	3,000.00	12,000	21,965																											
66	20	20 Each	Mailboxes, Metal	2023	10 to 25	14	1,500.00	30,000	47,968																											
67	1	1 Each	Playground Equipment, Metal	2029	15 to 25	20	33,500.00	33,500	65,381																											
68	4	2 Each	Playground Equipment, Wood	2014	15 to 25	5	25,000.00	25,000	70,518																											
69	120	120 Square Feet	Residing Mail, Masonry	2014	15 to 35	25	40.00	4,800	11,973																											

