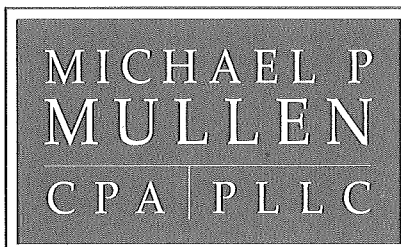


**THE JONATHAN ASSOCIATION, INC.**

**CHASKA, MINNESOTA**

**INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

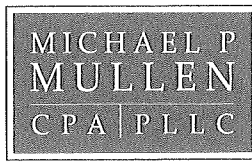
**FOR THE THREE MONTHS ENDED DECEMBER 31, 2010**



THE JONATHAN ASSOCIATION, INC.  
FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of The Jonathan Association, Inc. as of December 31, 2010, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the three months 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 The Jonathan Association, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the three months 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 8 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.

  
Michael P. Mullen, CPA, PLLC

Minneapolis, Minnesota  
September 19, 2011

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CERTIFIED PUBLIC ACCOUNTANTS | LICENSED IN MINNESOTA, WISCONSIN AND FLORIDA

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Member of The American Institute of Certified Public Accountants  
The Minnesota Society of Certified Public Accountants and Community Associations Institute

THE JONATHAN ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2010

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ 60,938	\$ 200,520	\$ 261,458
Assessments receivable	262,458		262,458
Promissory note receivable	12,836		12,836
Prepaid expenses	1,725		1,725
Property and equipment-net	245,914		245,914
		<u>50,000</u>	<u>50,000</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>583,871</u></b>	<b>\$ <u>250,520</u></b>	<b>\$ <u>834,391</u></b>
<u>LIABILITIES AND FUND BALANCE</u>			
<b>LIABILITIES</b>			
Accounts payable	\$ 39,867		\$ 39,867
Prepaid assessments	73,687		73,687
Due to replacement	<u>50,000</u>		<u>50,000</u>
<b>TOTAL LIABILITIES</b>	<b>163,554</b>		<b>163,554</b>
<b>FUND BALANCE</b>	<b><u>420,317</u></b>	<b>\$ <u>250,520</u></b>	<b><u>670,837</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>583,871</u></b>	<b>\$ <u>250,520</u></b>	<b>\$ <u>834,391</u></b>

The accompanying notes are an integral part of these financial statements

THE JONATHAN ASSOCIATION, INC.

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>REVENUE</b>			
Assessments	\$ 131,453	\$ 37,975	\$ 169,428
Other	3,276		3,276
Interest	2	142	144
<b>Total Revenue</b>	<u>134,731</u>	<u>38,117</u>	<u>172,848</u>
<b>EXPENSES</b>			
Management fees	9,120		9,120
Depreciation	2,649		2,649
Rubbish removal	532		532
Bad debts	388		388
Insurance	3,590		3,590
Utilities	3,165		3,165
Professional fees	7,115		7,115
Labor and related	24,352		24,352
Property taxes	6,098		6,098
Office and administrative	19,013		19,013
Lawn care and snow removal	46,782		46,782
Repair and maintenance	6,417		6,417
<b>Total Expenses</b>	<u>129,221</u>	<u>-</u>	<u>129,221</u>
<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES</b>	5,510	38,117	43,627
<b>FUND BALANCE AT 9/30/10</b>	<u>414,807</u>	<u>212,403</u>	<u>627,210</u>
<b>FUND BALANCE AT 12/31/10</b>	<u>\$ 420,317</u>	<u>\$ 250,520</u>	<u>\$ 670,837</u>

The accompanying notes are an integral part of these financial statements

THE JONATHAN ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from owners	\$ 74,898	\$ 37,975	\$ 112,873
Cash paid to providers	(123,315)		(123,315)
Interest received	2	142	144
Net cash provided by (used in) operating activities	<u>(48,415)</u>	<u>38,117</u>	<u>(10,298)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Interfund borrowing	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	1,585	(11,883)	(10,298)
CASH AT 9/30/10	<u>59,353</u>	<u>212,403</u>	<u>271,756</u>
CASH AT 12/31/10	<u>\$ 60,938</u>	<u>\$ 200,520</u>	<u>\$ 261,458</u>

The following schedule reconciles the excess (deficiency) of revenue over expenses to net cash provided by (used in) operating activities:

Excess (deficiency) of revenue over expenses	\$ 5,510	\$ 38,117	\$ 43,627
Depreciation	2,649		2,649
Bad debts	388		388
Decrease in assessments receivable	9,867		9,867
(Increase) in prepaid expenses	(1,681)		(1,681)
Increase in accounts payable	4,551		4,551
(Decrease) in prepaid assessments	(69,699)		(69,699)
Total adjustments	<u>(53,925)</u>	<u>-</u>	<u>(53,925)</u>
Net cash provided by (used in) operating activities	<u>\$ (48,415)</u>	<u>\$ 38,117</u>	<u>\$ (10,298)</u>

The accompanying notes are an integral part of these financial statements

THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

NOTE 1 - ORGANIZATION

The Jonathan Association, Inc. (Association) is a Minnesota nonprofit corporation legally organized as a homeowners association. The Association was incorporated on June 2, 1971 and is responsible for maintaining and preserving the common property within the Jonathan New Town development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fund Accounting

The Association's governing documents provide certain guidelines regarding its financial activities. Therefore, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds:

Operating Fund - This fund is used to account for the financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Interest earned

The Board's policy is for interest to remain in the fund in which it is earned.

Member Assessments

Association members are subject to annual and monthly 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.

THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Cash

The Association maintains cash in checking and money market savings accounts. Separate cash bank accounts are maintained for each fund. The Association considers all highly liquid investments with an original maturity of three months or less as cash.

Assessments Receivable

Assessments receivable at the balance sheet date represent 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 Board believes they will collect the past due assessments and has not established an allowance for uncollectible accounts.

Property and Equipment

The Association's policy is to capitalize all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units.

Examples of capitalized property and equipment consists of common personal property and 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 on the basis of usage or from nonmembers.

Examples of property not capitalized consist of sidewalks, access roads, and greenbelts. Property and equipment acquired by the Association are recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

Depreciation expense for the three months ended December 31, 2010 totaled \$8,330.

NOTE 3 - PROMISSORY NOTE RECEIVABLE

In 2006, the Association obtained a promissory note from Genesis Homes & Associates, LLC. The amount is due to the Association from the down payment of the garage construction that did not occur. The note accrued interest at a rate of 10% 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 three months ended December 31, 2010.



THE JONATHAN ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

NOTE 4 - INCOME TAXES

The Association is an exempt organization under Section 501(c)(4) of the Internal Revenue Code. Under that code the Association pays income taxes only on income generated from unrelated business activities. During the year, the Association did not have income from such activities.

NOTE 5 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents contain provisions to accumulate funds for future major repairs and replacements. Accumulated funds, which aggregate \$250,520 at December 31, 2010, are generally not available for operating purposes.

In 2009, the Board updated the study, which estimates the remaining useful lives for all of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Estimates were determined based on industry information available to the Management Company, prior experience and knowledge of the property.

The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to pass special assessments or delay replacement or maintenance until funds are available. Special assessments require assent of two-thirds of the vote of each class of members. The effect on future assessments has not been determined at this time.

**SUPPLEMENTARY INFORMATION**

THE JONATHAN ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2010

In 2009, the Board updated the study, which estimates the remaining useful lives for all of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Estimates were determined based on industry information available to the management company, prior experience and knowledge of the property.

Estimated current replacement costs and estimated remaining useful lives have not been revised since the date of the study and do not take into account the effects of any expenditures or differences in the estimates.

The total replacement fund balance at December 31, 2010 is \$250,520. The board has not allocated the replacement fund balance to each component.

The following information is based on the study and presents significant information about the components of common property.

Reserve Advisors, Inc.

**RESERVE FUNDING PLAN**

**CASH FLOW ANALYSIS**

The Jonathan  
Association  
Charles, Minnesota

**Individual Reserve Budgets & Cash Flows for the Next 30 Years**

FY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Reserves at Beginning of Year (Note 1)	N/A	193,931	182,777	66,915	84,850	45,713	61,000	123,421	283,396	411,961	583,166	662,294	807,364	964,945	1,104,842	1,192,970
Total Recommended Reserve Contributions (Note 2)	N/A	209,744	219,700	215,700	220,700	183,000	189,200	193,600	202,900	209,200	216,300	223,700	231,900	239,200	247,900	255,700
Plus Estimated Interest Earned, During Year (Note 3)	N/A	3,601	2,838	1,725	1,484	1,213	2,097	4,398	7,678	11,314	14,160	16,709	20,149	23,531	26,124	28,686
Less Anticipated Expenditures, By Year	N/A	(165,499)	(329,401)	(199,490)	(261,321)	(168,926)	(128,878)	(90,023)	(61,413)	(49,306)	(151,332)	(95,336)	(93,968)	(122,734)	(185,296)	(148,735)
Anticipated Reserves at Year End	\$193,931	182,777	66,915	84,850	45,713	61,000	123,421	283,396	411,961	583,166	662,294	807,364	964,945	1,104,842	1,192,970	1,329,605
Predicted Reserves based on 2009 funding level of \$200,744	0	201,000	402,000	603,000	804,000	1,005,000	1,206,000	1,407,000	1,608,000	1,809,000	2,010,000	2,211,000	2,412,000	2,613,000	2,814,000	3,015,000

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

(continued)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Reserves at Beginning of Year	1,329,605	1,540,545	1,371,314	806,300	882,375	69,324	221,190	364,191	363,538	593,983	574,291	517,974	596,946	662,541	838,043
Total Recommended Reserve Contributions	264,400	273,409	282,700	292,300	302,200	175,800	161,000	167,200	193,600	200,200	207,900	214,000	221,300	228,800	236,500
Plus Estimated Interest Earned, During Year	32,620	33,106	24,758	16,925	6,546	3,303	6,655	8,274	10,204	12,600	12,418	12,676	14,319	17,061	19,999
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)	(275,735)	(147,704)	(170,024)	(70,359)	(174,501)
Anticipated Reserves at Year End	1,540,545	1,371,314	806,300	882,375	69,324	221,190	364,191	363,538	593,983	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	315,000	83,000	(641,000)	(479,000)									(NOTE 5)

**Explanatory Notes:**

- 1) Year 2009 starting reserves are as of October 20, 2009; 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 (reserves 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  
Opposition  
Checks, Veterans

Expenditures:  
1. 2.0% in the assumed return rate for ordinary future replacement costs.  
2. FY 2019 is fiscal year beginning October 1, 2018 and ending September 30, 2019.

Line Item	Quantity	Unit Price	Unit	Reserve Component Inventory	Estimated Unit Quantity	Unit Price	2019 Replacement Cost per Unit	Total Cost	2019 Replacement Cost per Unit	Total Cost	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
70	3	3	Each	Reserve Component Inventory	224	19.50	4,320.00	4,320.00	21,200	21,200													
<b>Robb Woodford (PT) Elements</b>																							
71	1,000	1.00	Each	Usher Poles	201	2.15	4.28	4,280.00	4,280.00	4,280.00													
72	2,700	1.00	Linear Feet	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	3,211.50	3,211.50	3,211.50	3,211.50													
73	2	2	Each	Applied Pressure, Weather Poles, Total Replacement	207	17.71	3,578.02	3,578.02	3,578.02	3,578.02													
74	1	1	Each	US Poles, Wood, Replacement	207	16.25	1,625.00	1,625.00	1,625.00	1,625.00													
75	1	1	Each	Medium, Metal	208	19.25	19.25	19.25	19.25	19.25													
76	2	2	Each	Repaired Equipment, Metal	204	19.25	38.50	38.50	38.50	38.50													
77	1,000	1.00	Linear Feet	Applied Pressure, Weather Poles, Check Register and Poles	204	16.15	1,615.00	1,615.00	1,615.00	1,615.00													
78	6	6	Each	Applied Pressure, Weather Poles, Total Replacement	207	16.25	97.50	97.50	97.50	97.50													
79	27	27	Each	Medium, Metal	207	16.25	438.75	438.75	438.75	438.75													
80	11	11	Each	Medium, Metal with Wood Frame	207	16.25	178.75	178.75	178.75	178.75													
81	11	11	Each	Medium, Metal with Wood Frame	207	16.25	178.75	178.75	178.75	178.75													
82	11	11	Each	Medium, Metal with Wood Frame	207	16.25	178.75	178.75	178.75	178.75													
83	11	11	Each	Medium, Metal with Wood Frame	207	16.25	178.75	178.75	178.75	178.75													
84	1	1	Each	Applied Pressure, Weather Poles, Total Replacement	204	16.25	16.25	16.25	16.25	16.25													
85	2	2	Each	Applied Pressure, Weather Poles, Total Replacement	204	16.25	32.50	32.50	32.50	32.50													
<b>Aluminum Wood Elements</b>																							
86	1,000	1.00	Linear Feet	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	1,615.00	1,615.00	1,615.00	1,615.00													
87	1,000	1.00	Linear Feet	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	1,615.00	1,615.00	1,615.00	1,615.00													
88	3	3	Each	Applied Pressure, Weather Poles, Total Replacement	207	16.25	48.75	48.75	48.75	48.75													
89	4	4	Each	Medium, Metal	207	16.25	65.00	65.00	65.00	65.00													
90	4	4	Each	Medium, Metal with Wood Frame	207	16.25	65.00	65.00	65.00	65.00													
91	4	4	Each	Medium, Metal with Wood Frame	207	16.25	65.00	65.00	65.00	65.00													
92	4	4	Each	Medium, Metal with Wood Frame	207	16.25	65.00	65.00	65.00	65.00													
93	2	2	Each	Applied Pressure, Weather Poles, Total Replacement	204	16.25	32.50	32.50	32.50	32.50													
94	1	1	Each	Applied Pressure, Weather Poles, Total Replacement	204	16.25	16.25	16.25	16.25	16.25													
<b>Kenneth Moore Elements</b>																							
95	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													
96	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
97	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													
98	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													
99	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													
100	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													

Line Item	Quantity	Unit Price	Unit	Reserve Component Inventory	Estimated Unit Quantity	Unit Price	2019 Replacement Cost per Unit	Total Cost	2019 Replacement Cost per Unit	Total Cost	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
101	2	2	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	32.30	32.30	32.30	32.30													
102	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
<b>Edith Horan Elements</b>																							
103	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
104	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
105	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
106	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
107	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
108	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
109	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
110	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
111	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													
112	1	1	Each	Applied Pressure, Weather Poles, Check Register and Poles	201	16.15	16.15	16.15	16.15	16.15													

