

BLUE LAKE OWNERS' ASSOCIATION

FINANCIAL STATEMENTS
AND
REVIEW REPORT
OF INDEPENDENT ACCOUNTANT

December 31, 2007 and 2006

DALBY, WENDLAND & CO., P.C.



Certified Public Accountants & Consultants

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Board of Managers
Blue Lake Owners' Association
Carbondale, Colorado

REPORT OF INDEPENDENT ACCOUNTANT

We have reviewed the accompanying balance sheets of Blue Lake Owners' Association (the Association) as of December 31, 2007 and 2006, and the related statements of revenue, expenses and changes in fund balances and cash flows for the years then ended in accordance with statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the Association's management. The prior year summarized comparative information has been derived from the Association's 2006 financial statements and, in our report dated February 28, 2007, we were unaware of any material modifications that should have been made to those financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

A review consists principally of inquiries of Association personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, except as noted below, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the financial statements, the Association reports working capital deposits from homeowners received at the purchase of their home as deposits payable on the financial statements. Management has informed us that they are unable to determine the amounts payable to each homeowner. The effect of the amounts due to homeowners on the financial position of the Association has not been determined.

A handwritten signature in cursive script that reads 'Dalby, Wendland & Co., P.C.'.

DALBY, WENDLAND & CO., P.C.

March 20, 2008

BLUE LAKE OWNERS' ASSOCIATION

BALANCE SHEETS

December 31, 2007 and 2006

See Report of Independent Accountant

		2007			2006
		Operating Fund	Reserve Fund	Total	Total
ASSETS					
Current Assets					
Cash and cash equivalents		\$ 48,343	\$ 114,671	\$ 163,014	\$ 153,645
Accounts and assessments receivable		6,781	-	6,781	10,338
Employee advances		200	-	200	-
	<i>Total Current Assets</i>	55,324	114,671	169,995	163,983
Property and equipment, net		392,584	-	392,584	380,239
Deferred income tax assets		19,000	-	19,000	17,000
	Total Assets	\$ 466,908	\$ 114,671	\$ 581,579	\$ 561,222
LIABILITIES AND FUND BALANCE					
Current liabilities					
Accounts payable		\$ -	\$ -	\$ -	\$ 483
Deferred revenue		3,642	-	3,642	4,630
Accrued payroll taxes		2,685	-	2,685	1,935
Deposits		36,822	-	36,822	34,574
Current portion of long-term debt		5,958	-	5,958	10,586
Current portion of deferred income tax liabilities		29,000	-	29,000	23,000
	<i>Total Current Liabilities</i>	78,107	-	78,107	75,208
Long-term debt, net of current maturities		78,077	-	78,077	76,312
	<i>Total Liabilities</i>	156,184	-	156,184	151,520
Fund Balance		310,724	114,671	425,395	409,702
	Total Liabilities and Fund Balance	\$ 466,908	\$ 114,671	\$ 581,579	\$ 561,222

See accompanying notes.

BLUE LAKE OWNERS' ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCES

For the years ended December 31, 2007 and 2006

See Report of Independent Accountant

	2007		2006	
	Operating Fund	Reserve Fund	Total	Total
Revenue				
Owner assessments	\$ 230,030	\$ -	\$ 230,030	\$ 224,347
Owner charges	96,781	-	96,781	31,971
Rental income	30,750	-	30,750	27,345
Interest income	1,004	3,644	4,648	2,929
Other income	253	-	253	925
<i>Total Revenue</i>	<u>358,818</u>	<u>3,644</u>	<u>362,462</u>	<u>287,517</u>
Operating Expenses				
Payroll	123,359	-	123,359	134,366
Utilities	77,016	-	77,016	14,225
Depreciation	27,060	-	27,060	27,784
Insurance	25,545	-	25,545	21,954
Accounting and legal	15,314	-	15,314	22,757
Tax expense	13,262	-	13,262	15,747
Repairs and maintenance	12,571	-	12,571	9,909
Interest expense	11,079	-	11,079	5,709
Office expense	10,839	-	10,839	9,694
Other expense	10,114	-	10,114	7,595
Tools and equipment	8,427	-	8,427	11,813
Irrigation	5,028	-	5,028	3,687
Telephone communications	3,155	-	3,155	2,741
<i>Total Operating Expenses</i>	<u>342,769</u>	<u>-</u>	<u>342,769</u>	<u>287,981</u>
<i>Excess (Deficiency) of Revenue Over Expenses Before Income Taxes</i>	16,049	3,644	19,693	(464)
Income Tax Expense	4,000	-	4,000	-
<i>Excess (Deficiency) of Revenue Over Expenses</i>	<u>\$ 12,049</u>	<u>\$ 3,644</u>	<u>\$ 15,693</u>	<u>\$ (464)</u>
Fund Balance - beginning of year	\$ 323,186	\$ 86,516	\$ 409,702	\$ 416,166
Prior period adjustment	-	-	-	(6,000)
Fund Balance - beginning of year, restated	323,186	86,516	409,702	410,166
Transfers	(24,511)	24,511	-	-
Excess (deficiency) of revenue over expenses	12,049	3,644	15,693	(464)
Fund Balance - end of year	<u>\$ 310,724</u>	<u>\$ 114,671</u>	<u>\$ 425,395</u>	<u>\$ 409,702</u>

See accompanying notes.

BLUE LAKE OWNERS' ASSOCIATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2007 and 2006

See Report of Independent Accountant

	2007			2006
	Operating Fund	Reserve Fund	Total	Total
Cash flows from operating activities				
Excess (deficiency) of revenue over expenses	\$ 12,049	\$ 3,644	\$ 15,693	\$ (464)
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities:				
Depreciation	27,060	-	27,060	27,784
Deferred income tax expense	4,000	-	4,000	-
Transfer of cash from Operating Fund to Reserve Fund	(24,511)	24,511	-	-
Changes in current assets and current liabilities:				
Accounts receivable	3,557	-	3,557	(246)
Employee advances	(200)	-	(200)	-
Accounts payable	(483)	-	(483)	(219)
Deferred income	(988)	-	(988)	1,611
Accrued liabilities	750	-	750	(1,202)
Deposits	2,248	-	2,248	1,674
<i>Net Cash Provided by Operating Activities</i>	23,482	28,155	51,637	28,938
Cash flows from investing activities				
Acquisition of Equipment	(39,405)	-	(39,405)	(2,523)
<i>Net Cash Used by Investing Activities</i>	(39,405)	-	(39,405)	(2,523)
Cash flows from financing activities				
Proceeds from note payable	85,286	-	85,286	-
Payments on note payable	(88,149)	-	(88,149)	(9,972)
<i>Net Cash Used by Financing Activities</i>	(2,863)	-	(2,863)	(9,972)
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(18,786)	28,155	9,369	16,443
Cash and cash equivalents - beginning of year	67,129	86,516	153,645	137,202
Cash and cash equivalents - end of year	\$ 48,343	\$ 114,671	\$ 163,014	\$ 153,645
Supplemental Disclosure				
Interest paid - cash	\$ 11,079	\$ -	\$ 11,079	\$ 5,709

See accompanying notes.

BLUE LAKE OWNERS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Blue Lake Owners' Association (the Association) is a nonprofit planned unit development incorporated in the State of Colorado and is responsible for the operation and maintenance of the common property of Blue Lake Owners' Association. The Association, located in Carbondale, Colorado, consists of 350 separately owned homes/lots, and common areas. A board of directors governs the Association.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

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

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Property

Property of the Association is stated at cost. Real property and personal property held in the name of the Association and purchased by the Association are capitalized. Additions, improvements, and expenditures for repairs and maintenance that significantly add to the productivity or extend the economic life of assets are capitalized. Recurring expenditures for repairs and maintenance are charged to operations. When assets are retired or sold, the assets and accumulated depreciation are removed from the respective accounts with any profit or loss on the disposition credited or charged to income. Improvements to common area property are expensed.

Real property directly associated with the homes/lots is not capitalized, as it is owned by the individual owners in common and not the Association.

Depreciation for financial statement purposes is calculated using the straight-line method over estimated useful lives.

Owner Assessments

All members of the Association are subject to regular assessments and special assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable, if any, at the balance sheet date represent fees due from homeowners. Unpaid assessments become a lien on the property. Therefore, the Association does not provide an allowance for doubtful accounts and considers all accounts receivable collectible.

According to the Association's Declaration of Covenants, as a condition of ownership, all homeowners are charged an initial assessment at the purchase of their home. These assessments are used by the Association as working capital to be returned to the owners at the sale of their home. They are shown on the financial statements as deposits.

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.

NOTE 2 - INCOME TAXES

Organizations such as the Association are taxed as a regular corporation unless an election is made to be taxed as a homeowners' association. For the years ended December 31, 2007 and 2006, the Association was taxed as a regular corporation.

For tax purposes, the Association had available at December 31, 2007 and 2006, net operating loss (NOL) carryforwards for regular and state income tax purposes of \$86,362 and \$73,724, respectively, which will expire beginning in the year 2011 through the year 2026. The Association believes that it is more likely than not that all of the carryforwards will be utilized prior to their expiration. Therefore, the Association has made no valuation allowance for the net operating loss carryforwards.

Significant components of the Association's deferred tax assets and liabilities as of December 31 were as follows:

Operating Fund:	2007	2006
Deferred Tax Assets		
Long Term		
Net operating loss carryforward	\$ 19,000	\$ 17,000
<i>Total Deferred Tax Assets</i>	<i>\$ 19,000</i>	<i>\$ 17,000</i>
Deferred Tax Liabilities		
Current		
Net membership income deferral	\$ 29,000	\$ 23,000
<i>Total Deferred Tax Liabilities</i>	<i>\$ 29,000</i>	<i>\$ 23,000</i>

Income tax expense for the year ended December 31, 2007, consists of the following:

	Operating Fund
Deferred income tax expense	
Federal	\$ 3,141
State	859
	\$ 4,000

NOTE 3 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents allow funds to be accumulated for future major repairs and replacements including additions, alterations or improvements. Accumulated funds, which aggregate \$114,671 and \$86,516 at December 31, 2007 and 2006, respectively, are held in a separate bank account and are generally not available for operating purposes. It is the Association's policy to allocate interest earned on such funds to the replacement fund.

The Association evaluates funds accumulated for future major repairs and replacements quarterly. During the year ended December 31, 2007, the Association transferred a total of \$24,511 from the operating fund to the reserve fund.

Aspen Reserve Specialties conducted a study in 2007 to estimate the remaining useful lives and the replacement costs of the common property components of the Association. 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 cost, 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 not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	<u>2007</u>	<u>2006</u>
Operating Fund:		
Buildings and land improvements	\$ 506,797	\$ 467,392
Furniture, fixtures, and equipment	163,713	163,713
Computer equipment	9,577	9,577
	<u>680,087</u>	<u>640,682</u>
Less accumulated depreciation	<u>(287,503)</u>	<u>(260,443)</u>
	<u>\$ 392,584</u>	<u>\$ 380,239</u>

Depreciation expense for the years ended December 31, 2007 and 2006, was \$27,060 and \$27,784, respectively.

NOTE 5 - NOTE PAYABLE

A note payable at December 31, 2007, consists of the following:

A note payable to Bank of Colorado, maturing September 2017, bearing interest of 7.92%, collateralized by the community center and assignment of rental income.	\$ 84,035
Less current portion	<u>(5,958)</u>
	<u>\$ 78,077</u>

Five year maturities are as follows:

2008	\$	5,958
2009		6,448
2010		6,977
2011		7,551
2012 and thereafter		57,101
	\$	<u>84,035</u>

A note payable at December 31, 2006, consisted of the following:

A note payable to Alpine Bank, maturing September 2013, bearing interest at prime plus 1.50%, with a floor of 6.00%, collateralized by the community center and assignment of rental income.	\$	86,898
Less current portion		<u>(10,586)</u>
	\$	<u>76,312</u>

The Association refinanced the note payable to Alpine Bank during 2007.

NOTE 6 - PRIOR PERIOD ADJUSTMENT

The Association's operating fund balance as of December 31, 2006, has been adjusted to correct for the long term income tax assets and current income tax liabilities. In prior periods, the deferred tax assets and liabilities of the Association were omitted, resulting in an understatement of the related income tax expense. The restatement of the financial statements as of December 31, 2006, resulted in an increase of \$17,000 in the deferred income tax assets, \$23,000 in the deferred income tax liabilities, and a decrease of \$6,000 in the operating fund balance.

SUPPLEMENTAL INFORMATION

DALBY, WENDLAND & CO., P.C.



Certified Public Accountants & Consultants

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Carbondale, Colorado

REPORT OF INDEPENDENT ACCOUNTANT ON SUPPLEMENTAL INFORMATION

Our report on our review of the basic consolidated financial statements taken as a whole of Blue Lake Owners' Association for the year ended December 31, 2007, appears on page 1. That review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplemental schedule of capitalized expenses on page 11 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the consolidated basic financial statements, and we are not aware of any material modifications that should be made to it.

The supplemental information on future major repairs and replacements on page 12 is not a required part of the basic financial statements of the Association but is supplementary information required by the American Institute of Certified Public Accountants. 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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DALBY, WENDLAND & CO., P.C.

March 20, 2008

BLUE LAKE OWNERS' ASSOCIATION

SCHEDULE OF CAPITALIZED EXPENSES

For the year ended December 31, 2007

See Report of Independent Accountant

Fencing	\$	1,688
Preschool Doors		6,375
Sidewalks		31,342
	\$	<u>39,405</u>

BLUE LAKE OWNERS' ASSOCIATION
SUPPLEMENTAL INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)

December 31, 2007

See Report of Independent Accountant

Aspen Reserve Specialties conducted a study on behalf of the Association from July 1, 2007 through December 31, 2007, to estimate the remaining useful lives and the replacement costs of major common area components. Replacement costs were based on physical inspections of the common areas, information obtained from local vendors and contractors, and assumed inflation of 3% per year to determine the average estimated cost to repair or replace the common property at the end of its useful life.

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

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Cash and Investments at December 31, 2007</u>
Concrete & Asphalt	1 to 14 years	\$ 182,748	\$ 35,331
Maintenance Equipment	1 to 12 years	118,500	22,910
Recreation Equipment	2 to 12 years	96,050	18,570
Fencing	3 to 12 years	49,125	9,498
Doors & Windows	15 years	37,125	7,178
Siding	1 to 5 years	22,400	4,331
Irrigation	3 to 7 years	21,350	4,128
Security	4 to 22 years	20,200	3,905
Property Identification	4 to 17 years	18,150	3,509
Office Interiors	2 to 6 years	12,700	2,455
Landscaping	1 to 11 years	7,800	1,508
Mechanical Equipment	6 years	4,000	773
Roofing	2 years	2,975	575
Totals		<u>\$ 593,123</u>	<u>\$ 114,671</u>