

Blue Lake Owners' Association

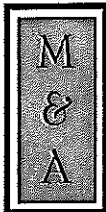
Financial Report

December 31, 2008

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
December 31, 2008**

Table of Contents

	Page
INDEPENDENT ACCOUNTANT'S REPORT	1
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to the Financial Statements	5 – 8
Supplementary Schedules:	
Schedule of Operating and Replacement Funds – Budget to Actual Comparison	9
Schedule of Future Major Repairs and Replacements	10



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INDEPENDENT ACCOUNTANT'S REPORT

**To the Board of Directors
Blue Lake Owners' Association
Carbondale, CO**

We have reviewed the accompanying balance sheets of Blue Lake Owners' Association (the "Association") as of December 31, 2008, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year 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 management of the Association.

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 generally accepted auditing standards, 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, 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 generally accepted accounting principles.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The Schedule of Operating and Replacement Funds – Budget to Actual Comparison presented on page 9 is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made to it.

The Schedule of Future Major Repairs and Replacements on page 10 is not a required part of the basic financial statements, but is supplementary information required by the American Institute of Certified Public Accountants. We have compiled the supplementary information from information that is the representation of management of the Association, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
May 14, 2009**

Performing services for resort communities throughout Colorado

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Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	39,773	64,068	103,841
Investments - Certificates of deposit	150,000	-	150,000
Accounts receivable - Owners (net)	16,813	-	16,813
Property and equipment, net	306,715	-	306,715
Due from (to) other fund	(119,246)	119,246	-
Total Assets	<u>394,055</u>	<u>183,314</u>	<u>577,369</u>
Liabilities and Fund Equity:			
Liabilities:			
Accounts payable	9,334	-	9,334
Deferred assessment revenue	2,553	-	2,553
Accrued payroll taxes	3,060	-	3,060
Deposits	1,350	-	1,350
Note payable	78,089	-	78,089
Total Liabilities	<u>94,386</u>	<u>-</u>	<u>94,386</u>
Fund Equity:			
Working capital	37,427	-	37,427
Fund balances	262,242	183,314	445,556
Total Fund Equity	<u>299,669</u>	<u>183,314</u>	<u>482,983</u>
Total Liabilities and Fund Equity	<u>394,055</u>	<u>183,314</u>	<u>577,369</u>

See accompanying notes and accountant's report.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Common assessments	250,829	77,270	328,099
Trash service assessments	71,976	-	71,976
Rental income - Office and Community Center	49,650	-	49,650
Rental income - Storage lots	19,127	-	19,127
Finance charges and fines	2,073	-	2,073
Interest income	486	1,585	2,071
Other income	2,226	-	2,226
	<u>396,367</u>	<u>78,855</u>	<u>475,222</u>
Expenses:			
Payroll and benefits	128,826	-	128,826
Utilities	89,520	-	89,520
Depreciation	19,192	-	19,192
Insurance	23,938	-	23,938
Professional fees	21,515	-	21,515
Irrigation	4,856	-	4,856
Interest	6,455	-	6,455
Grounds maintenance	66,638	-	66,638
Office expense	10,278	-	10,278
Repairs and maintenance	12,558	-	12,558
Other	4,397	-	4,397
Replacement Fund expenses	-	10,212	10,212
	<u>388,173</u>	<u>10,212</u>	<u>398,385</u>
Excess of Revenues Over Expenses	8,194	68,643	76,837
Beginning Fund Balances (Restated)	<u>254,048</u>	<u>114,671</u>	<u>368,719</u>
Ending Fund Balances	<u>262,242</u>	<u>183,314</u>	<u>445,556</u>

See accompanying notes and accountant's report.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended December 31, 2008

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash received from owners	332,884	77,270	410,154
Cash received from investment income	486	1,585	2,071
Other cash receipts	49,901	-	49,901
Cash payments for goods and services	(230,820)	(10,212)	(241,032)
Cash paid for employees	(128,451)	-	(128,451)
Transfer from (to) other funds, net	119,246	(119,246)	-
Net Cash Provided (Used) by Operating Activities	<u>143,246</u>	<u>(50,603)</u>	<u>92,643</u>
Cash Flows From Investing Activities:			
Cash paid to purchase investments	(150,000)	-	(150,000)
Net Cash (Used) by Investing Activities	<u>(150,000)</u>	<u>-</u>	<u>(150,000)</u>
Cash Flows From Financing Activities:			
Net cash received from working capital deposits	4,130	-	4,130
Principal paid on note payable	(5,946)	-	(5,946)
Net Cash (Used) by Financing Activities	<u>(1,816)</u>	<u>-</u>	<u>(1,816)</u>
Net (Decrease) in Cash and Cash Equivalents	(8,570)	(50,603)	(59,173)
Beginning Cash and Cash Equivalents	<u>48,343</u>	<u>114,671</u>	<u>163,014</u>
Ending Cash and Cash Equivalents	<u>39,773</u>	<u>64,068</u>	<u>103,841</u>
Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Excess of revenues over expenses	8,194	68,643	76,837
Adjustments to reconcile:			
Depreciation	19,192	-	19,192
(Increase) decrease - Accounts receivable - Owners	(13,674)	-	(13,674)
(Increase) decrease - Accounts receivable - Other	200	-	200
Increase (decrease) - Accounts payable	9,335	-	9,335
Increase (decrease) - Deferred revenue	2,553	-	2,553
Increase (decrease) - Accrued payroll taxes	375	-	375
Increase (decrease) - Deposits	(2,175)	-	(2,175)
Transfer from (to) other fund	119,246	(119,246)	-
Total Adjustments	<u>135,052</u>	<u>(119,246)</u>	<u>15,806</u>
Net Cash Provided (Used) by Operating Activities	<u>143,246</u>	<u>(50,603)</u>	<u>92,643</u>

See accompanying notes and accountant's report.

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2008**

1. Organization

Blue Lake Owners' Association (the "Association"), a planned unit development, was incorporated in the State of Colorado as a non-profit corporation pursuant to Articles of Incorporation dated July 11, 1984. The Association's primary purpose is to operate and maintain the common property of the Association.

The Association, which is located in Carbondale, Colorado, consists of 350 homes/lots and common areas.

2. Summary of Significant Accounting Policies

A. Fund Accounting

The Association uses the fund method of accounting, which requires that funds, such as operating funds and funds for future major repairs and replacements, be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors of the Association (the "Board"). Disbursements from the Replacement Fund may be made only for their designated purposes.

B. Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting, which recognizes revenues when earned or assessed, and expenses when incurred.

C. Recognition of Assets

The Association recognizes as assets on its financial statements:

- (a) common personal property and;
- (b) common real property to which it has title and that it can dispose of for cash, while retaining the proceeds thereto.

These assets recorded at cost and are depreciated using the straight-line method over estimated useful lives of five to thirty-nine years.

Real common property, including infrastructure assets and other assets which cannot be readily disposed for cash, are not recognized as assets on the Association's financial statements.

D. Cash and Cash Equivalents

The Association considers all checking accounts, savings accounts and money market savings accounts to be cash equivalents for the purpose of the Statement of Cash Flows, since all such funds are highly liquid.

E. Investments

The Association has invested certain excess funds in certificates of deposit. Because these certificates of deposit are intended to fund operations and may provide a ready source of cash when so required, these investments are classified as trading.

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2008
(Continued)**

2. Summary of Significant Accounting Policies (continued)

F. Allowance for Uncollectible Amounts

The Association utilizes the allowance method of recognizing the future potential uncollectibility of assessments receivable from owners. No allowance was recorded at December 31, 2008, as all amounts are considered collectible. The Association's policy is to charge late fees to owner accounts at the end of each month an account is delinquent. Liens may be filed on accounts with delinquent balances that are \$500 and above.

G. Deferred Revenue

Deferred revenue represents prepaid assessments.

H. Working Capital

Working capital represents contributions made to the Association by the condominium unit owner at the time of their purchase of the unit. This amount is equal to three months' assessments at the time of the purchase.

I. Common Assessments

Common assessments are the primary source of revenue for the Association. The Board prepares an annual budget to estimate the annual expenses of maintaining the Association's common elements. On a monthly basis, members of the Association are assessed for their pro-rata share of these estimated expenses.

Since the Association is designed only to operate as a conduit to collect assessments and pay operating expenses on behalf of members, any excess or deficiency of revenues over expenses is repaid to or recovered from the members in a subsequent year by reducing or increasing assessments, or, with the approval of the Board, transferred to the Replacement Fund.

J. Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources.

For tax purposes the Association had available at December 31, 2008, federal and state net operating loss carryforwards of \$96,289 and \$76,095, respectively. These carryforwards, which will expire beginning 2011 through 2027, may be used to offset future net income derived from investments and other non-membership sources. Due to the uncertainty of how much, if any, of these carryforwards will be used in future periods, no deferred tax assets have been recorded by the Association.

K. Use 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 reported amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2008
(Continued)**

3. Investments

Certificates of deposit, maturing within one year, bearing interest at 2.97% - 3.21% per annum	\$ 100,000
Certificate of deposit, maturing within two years, bearing interest at 3.80% per annum	<u>50,000</u>
Total Investments	<u><u>\$ 150,000</u></u>

4. Property and Equipment

Buildings and improvements	\$ 473,767
Equipment and vehicles	<u>97,000</u>
At cost	570,767
Less: Accumulated depreciation	<u>(264,052)</u>
Net Book Value	<u><u>\$ 306,715</u></u>

5. Note Payable

A note payable at December 31, 2008, consists of the following:

Payable to Bank of Colorado, maturing September 20, 2007, bearing interest of 7.92%, collateralized by the community center and assignment of rental income.	<u>\$ 78,089</u>
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Future maturities are as follows:

2009	\$ 6,447
2010	6,977
2011	7,550
2012	8,157
2013	8,840
2014 - 2017	<u>40,118</u>
	<u><u>\$ 78,089</u></u>

6. Replacement Funds and Reserve for Future Major Repairs and Replacements

The Association is accumulating funds for future major repairs and replacements of the Association's property as required in its Declaration of Covenants, Conditions, and Restrictions. Accumulated funds are held in a separate savings account and generally are not available for expenditures for normal operations.

The Board commissioned a study, which was completed in 2007, to estimate the remaining useful lives and the replacement costs of the components of common property. These estimates were based on visual observations of representative samplings during an on-site visit by an engineering firm and assume a 3% rate of inflation and interest. The unaudited supplemental Schedule of Future Major Repairs and Replacements on page 10 is based on that study.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2008
(Continued)

6. Replacement Funds and Reserve for Future Major Repairs and Replacements (continued)

In accordance with industry guidelines, it is the Association's primary duty to maintain and preserve the common property of the owners. Therefore, it is the Association's responsibility to determine a method for funding the costs of future major repairs and maintenance by assessing owners when funds are needed or by anticipating costs over extended time periods, assessing owners for the anticipated costs, and accumulating funds in reserves to meet the future funding requirements. The Board has chosen to fund major repairs and replacements over the remaining useful lives of the components, based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund.

Funds are being accumulated in the Replacement Funds based on estimates for future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to Board approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

During the year ended December 31, 2008, the Association levied \$77,270 of Replacement Fund assessments.

7. Prior Period Adjustments

The Association's Operating Fund balance as of December 31, 2007, has been adjusted to correct capital assets. The restatement of the financial statements as of December 31, 2007, resulted in a decrease of \$66,676 in capital assets and a decrease of \$66,676 in the Operating Fund balance.

The Association's Operating Fund balance as of December 31, 2007, has been adjusted to eliminate deferred tax assets and liabilities. The restatement of the financial statements as of December 31, 2007, resulted in a decrease of \$19,000 of deferred tax assets, a decrease of \$29,000 in deferred tax liabilities and an increase of \$10,000 in the Operating Fund balance.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Operating and Replacement Funds - Budget to Actual Comparison
For the Year Ended December 31, 2008
(With Comparative Actual Amounts for the Year Ended December 31, 2007)

	<u>Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Revenues:			
Common assessments - Operating	250,530	250,829	299
Common assessments - Replacement	77,196	77,270	74
Trash service assessments	74,172	71,976	(2,196)
Rental income - office and Community Center	51,000	49,650	(1,350)
Rental income - storage lots	29,520	19,127	(10,393)
Finance charges and fines	700	2,073	1,373
Interest income - Operating	125	486	361
Interest income - Replacement	1,500	1,585	85
Other income	-	2,226	2,226
Total Revenues	<u>484,743</u>	<u>475,222</u>	<u>(9,521)</u>
Expenses:			
Operating Fund:			
Payroll and benefits	222,391	128,826	93,565
Utilities	86,068	89,520	(3,452)
Depreciation	-	19,192	(19,192)
Insurance	24,137	23,938	199
Professional fees	20,670	21,515	(845)
Irrigation	5,793	4,856	937
Interest	6,426	6,455	(29)
Grounds maintenance	9,795	66,638	(56,843)
Office expense	8,510	10,278	(1,768)
Repairs and maintenance	18,600	12,558	6,042
Other	4,600	4,397	203
Subtotal - Operating Fund	<u>406,990</u>	<u>388,173</u>	<u>18,817</u>
Replacement Fund:			
Community Center	-	10,212	(10,212)
Truck replacement	27,000	-	27,000
Re-siding stain	12,103	-	12,103
Landscaping	2,936	-	2,936
Subtotal - Replacement Fund	<u>42,039</u>	<u>10,212</u>	<u>31,827</u>
Total Expenses	<u>449,029</u>	<u>398,385</u>	<u>50,644</u>
Excess of Revenues Over Expenses	<u>35,714</u>	<u>76,837</u>	<u>41,123</u>

See accountant's report.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2008

During fiscal year 2007, the Association's Board of Directors commissioned a study by independent reserve study engineers to estimate the remaining useful lives and the replacement costs of the components of common property. The study projected future fund balances, but did not allocate fund balance between the individual items, nor has the Board has elected to allocate fund balance between the components of common property.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Projected Fund Balance 2008</u>	<u>Replacement Fund Balance 2008</u>
Concrete and asphalt	0-13	182,748		
Maintenance equipment	0-11	118,500		
Recreation equipment	1-11	96,050		
Fencing	2-11	49,125		
Doors and windows	14	37,125		
Siding	0-4	22,400		
Irrigation system	2-6	21,350		
Street lights and gate operators	3-21	20,200		
Monument and mailboxes	3-16	18,150		
Office interiors and equipment	1-5	12,700		
Landscaping and bridge	0-10	7,800		
Boilers	5	4,000		
Gutters and downspouts	1	2,975		
Total		<u>593,123</u>	<u>159,045</u>	<u>183,314</u>

See accountant's report.