

Blue Lake Owners' Association

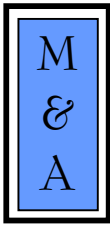
Financial Report

December 31, 2009

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
December 31, 2009**

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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, 2009, 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. The prior year summarized information has been derived from the Blue Lake's 2008 financial statements and, in our report dated May 14, 2009, we expressed limited assurance that there were no material modifications that should be made to those financial statements in order for them to be in conformity with generally accepted accounting principles.

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 10 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 11 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.
June 22, 2010**

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Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2009
(With Comparative Totals for December 31, 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Cash and cash equivalents	-	88,797	88,797	103,841
Investments - Certificates of deposit	-	152,002	152,002	150,000
Accounts receivable - Owners (net)	11,789	-	11,789	16,813
Property and equipment, net	330,741	-	330,741	306,715
Due from (to) other fund	32,070	(32,070)	-	-
Total Assets	374,600	208,729	583,329	577,369
Liabilities and Fund Equity:				
Liabilities:				
Cash and cash equivalents - Overdraft	3,660	-	3,660	-
Accounts payable	6,912	-	6,912	9,334
Deferred assessment revenue	2,912	-	2,912	2,553
Accrued payroll taxes	3,985	-	3,985	3,060
Deposits	1,805	-	1,805	1,350
Note payable	71,605	-	71,605	78,089
Total Liabilities	90,879	-	90,879	94,386
Fund Equity:				
Working capital	38,407	-	38,407	37,427
Fund balances	245,314	208,729	454,043	445,556
Total Fund Equity	283,721	208,729	492,450	482,983
Total Liabilities and Fund Equity	374,600	208,729	583,329	577,369

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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Common assessments	253,386	81,060	334,446	328,099
Trash service assessments	73,539	-	73,539	71,976
Rental income - Office and Community Center	50,839	-	50,839	49,650
Rental income - Storage lots	19,045	-	19,045	19,127
Grant income	-	48,014	48,014	-
Finance charges and fines	3,977	-	3,977	2,073
Interest income	502	4,157	4,659	2,071
Other income	713	-	713	2,226
	<u>402,001</u>	<u>133,231</u>	<u>535,232</u>	<u>475,222</u>
Total Revenues				
Expenses:				
Payroll and benefits	173,873	-	173,873	128,826
Utilities	92,121	-	92,121	89,520
Depreciation	18,814	-	18,814	19,192
Insurance	20,653	-	20,653	23,938
Professional fees	6,856	-	6,856	21,515
Irrigation	6,648	-	6,648	4,856
Interest	5,917	-	5,917	6,455
Grounds maintenance	64,458	-	64,458	66,638
Office expense	9,261	-	9,261	10,278
Repairs and maintenance	13,971	-	13,971	12,558
Other	6,357	-	6,357	4,397
Replacement Fund expenses	-	107,816	107,816	10,212
	<u>418,929</u>	<u>107,816</u>	<u>526,745</u>	<u>398,385</u>
Total Expenses				
Excess (Deficiency) of Revenues Over Expenses	(16,928)	25,415	8,487	76,837
Beginning Fund Balances	<u>262,242</u>	<u>183,314</u>	<u>445,556</u>	<u>368,719</u>
Ending Fund Balances	<u><u>245,314</u></u>	<u><u>208,729</u></u>	<u><u>454,043</u></u>	<u><u>445,556</u></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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	2009			2008
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners	353,925	81,060	434,985	410,154
Cash received from investment income	502	2,160	2,662	2,071
Other cash receipts	52,007	48,014	100,021	49,901
Cash payments for goods and services	(227,260)	(107,816)	(335,076)	(241,032)
Cash paid for employees	(172,948)	-	(172,948)	(128,451)
Transfer from (to) other funds, net	(51,316)	51,316	-	-
Net Cash Provided (Used) by Operating Activities	(45,090)	74,734	29,644	92,643
Cash Flows From Investing Activities:				
Proceeds on sale/redemption of investments	50,000	-	50,000	-
Cash paid to purchase investments	-	(50,005)	(50,005)	(150,000)
Cash paid to purchase fixed assets	(42,839)	-	(42,839)	-
Net Cash Provided (Used) by Investing Activities	7,161	(50,005)	(42,844)	(150,000)
Cash Flows From Financing Activities:				
Net cash received from working capital deposits	980	-	980	4,130
Principal paid on note payable	(6,484)	-	(6,484)	(5,946)
Net Cash (Used) by Financing Activities	(5,504)	-	(5,504)	(1,816)
Net Increase (Decrease) in Cash and Cash Equivalents	(43,433)	24,729	(18,704)	(59,173)
Beginning Cash and Cash Equivalents	39,773	64,068	103,841	163,014
Ending Cash and Cash Equivalents	(3,660)	88,797	85,137	103,841
Ending Cash and Cash Equivalents is Comprised of:				
Cash and cash equivalents	-	88,797	88,797	103,841
Cash and cash equivalents - Overdraft	(3,660)	-	(3,660)	-
Total Ending Cash and Cash Equivalents	(3,660)	88,797	85,137	103,841
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (deficiency) of revenues over expenses	(16,928)	25,415	8,487	76,837
Adjustments to reconcile:				
Depreciation	18,814	-	18,814	19,192
(Increase) decrease - Accrued interest on certificates of deposit	-	(1,997)	(1,997)	-
(Increase) decrease - Accounts receivable - Owners	5,024	-	5,024	(13,674)
(Increase) decrease - Accounts receivable - Other	-	-	-	200
Increase (decrease) - Accounts payable	(2,423)	-	(2,423)	9,335
Increase (decrease) - Deferred revenue	359	-	359	2,553
Increase (decrease) - Accrued payroll taxes	925	-	925	375
Increase (decrease) - Deposits	455	-	455	(2,175)
Transfer from (to) other fund	(51,316)	51,316	-	-
Total Adjustments	(28,162)	49,319	21,157	15,806
Net Cash Provided (Used) by Operating Activities	(45,090)	74,734	29,644	92,643

See accompanying notes and accountant's report.

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009**

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, 2009
(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. An allowance of \$1,405 was recorded at December 31, 2009 to estimate uncollectible accounts. 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 100 or more days past due.

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, 2009, federal and state net operating loss carryforwards of \$64,712 and \$39,776, respectively. These carryforwards, which will expire beginning 2021 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. Investment Income Allocation

Interest income is recorded in the fund holding the underlying source of investment income.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

2. Summary of Significant Accounting Policies (continued)

L. 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.

M. Comparative Information

The financial statements include certain prior year comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2008, from which the comparative totals were derived.

M. Subsequent Events

Management has evaluated subsequent events through June 22, 2010, the date these financial statements were available to be issued.

3. Investments

Certificates of deposit, maturing within one year, bearing interest at 1.34% - 3.80% per annum	<u>\$ 152,002</u>
Total Investments	<u><u>\$ 152,002</u></u>

4. Property and Equipment

Buildings and improvements	\$ 490,580
Equipment and vehicles	<u>115,528</u>
At cost	606,108
Less: Accumulated depreciation	<u>(275,367)</u>
Net Book Value	<u><u>\$ 330,741</u></u>

5. Note Payable

A note payable at December 31, 2009, consists of the following:

Payable to Bank of Colorado, maturing September 20, 2017, bearing interest of 7.92%, collateralized by the community center and assignment of rental income.	<u><u>\$ 71,605</u></u>
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**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)**

5. Note Payable (continued)

Future maturities are as follows:

2010	\$ 6,977
2011	7,550
2012	8,157
2013	8,840
2014	9,566
2015 - 2017	<u>30,515</u>
	<u>\$ 71,605</u>

6. Operating Lease Commitments

The Association leases office and community center space to tenants under operating leases with initial terms of one to ten years. The Association received \$50,839 from these leases during the year ended December 31, 2009. The following is a schedule of future minimum rentals under the leases at December 31, 2009:

	Office Lease #1	Office Lease #2	Office Lease #3	Community Center Lease	Total
2010	\$ 4,050	3,600	5,705	34,800	48,155
2011	-	-	5,874	34,800	40,674
2012	-	-	6,043	34,800	40,843
2013	-	-	6,219	34,800	41,019
2014	-	-	519	34,800	35,319
Thereafter	-	-	-	52,200	52,200
Total Minimum Lease Payments	<u>\$ 4,050</u>	<u>3,600</u>	<u>24,360</u>	<u>226,200</u>	<u>258,210</u>

7. 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 certificates of deposit 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 11 is based on that study.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

7. 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, 2009, the Association levied \$81,060 of Replacement Fund assessments.

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, 2009
(With Comparative Actual Amounts for the Year Ended December 31, 2008)

	<u>2009</u>		Variance Favorable/ (Unfavorable)	<u>2008</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Common assessments - Operating	255,591	253,386	(2,205)	250,829
Common assessments - Replacement	80,940	81,060	120	77,270
Trash service assessments	69,158	73,539	4,381	71,976
Rental income - Office and Community Center	52,530	50,839	(1,691)	49,650
Rental income - Storage lots	21,877	19,045	(2,832)	19,127
Grant income - Replacement	-	48,014	48,014	-
Finance charges and fines	1,103	3,977	2,874	2,073
Interest income - Operating	150	502	352	486
Interest income - Replacement	1,900	4,157	2,257	1,585
Other income	-	713	713	2,226
Total Revenues	<u>483,249</u>	<u>535,232</u>	<u>51,983</u>	<u>475,222</u>
Expenses:				
Operating Fund:				
Payroll and benefits	174,946	173,873	1,073	128,826
Utilities	87,307	92,121	(4,814)	89,520
Depreciation	-	18,814	(18,814)	19,192
Insurance	23,612	20,653	2,959	23,938
Professional fees	15,000	6,856	8,144	21,515
Irrigation	6,377	6,648	(271)	4,856
Interest	6,000	5,917	83	6,455
Grounds maintenance	61,015	64,458	(3,443)	66,638
Office expense	6,299	9,261	(2,962)	10,278
Repairs and maintenance	13,494	13,971	(477)	12,558
Other	4,680	6,357	(1,677)	4,397
Subtotal - Operating Fund	<u>398,730</u>	<u>418,929</u>	<u>(20,199)</u>	<u>388,173</u>
Replacement Fund:				
Community Center	-	-	-	10,212
Lighting - Parks	10,000	9,439	561	-
Fencing	8,000	9,301	(1,301)	-
Sidewalks	60,000	89,076	(29,076)	-
Sprinkler system	60,000	-	60,000	-
Subtotal - Replacement Fund	<u>138,000</u>	<u>107,816</u>	<u>30,184</u>	<u>10,212</u>
Total Expenses	<u>536,730</u>	<u>526,745</u>	<u>9,985</u>	<u>398,385</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(53,481)</u>	<u>8,487</u>	<u>61,968</u>	<u>76,837</u>

See accountant's report.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2009

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 2009</u>	<u>Replacement Fund Balance 2009</u>
Concrete and asphalt	0-12	182,748		
Maintenance equipment	0-10	118,500		
Recreation equipment	0-10	96,050		
Fencing	1-10	49,125		
Doors and windows	13	37,125		
Siding	0-3	22,400		
Irrigation system	1-5	21,350		
Street lights and gate operators	2-20	20,200		
Monument and mailboxes	2-15	18,150		
Office interiors and equipment	0-4	12,700		
Landscaping and bridge	0-9	7,800		
Boilers	4	4,000		
Gutters and downspouts	0	2,975		
Total		<u>593,123</u>	<u>147,929</u>	<u>208,729</u>