

The Grand Lodge on Peak 7 Owners Association, Inc.

Financial Report

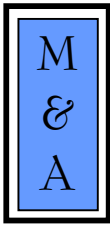
December 31, 2009



The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
December 31, 2009

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
The Grand Lodge on Peak 7 Owners Association, Inc.
Breckenridge, Colorado**

We have audited the accompanying balance sheets of The Grand Lodge on Peak 7 Owners Association, Inc. (the "Association"), a Colorado non-profit corporation, as of December 31, 2009, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the period 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 U.S. generally accepted auditing standards. 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 Grand Lodge on Peak 7 Owners Association, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the period then ended in conformity with U.S. generally accepted accounting principles.

The Grand Lodge on Peak 7 Owners Association, Inc. has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

**McMahan and Associates, L.L.C.
March 24, 2010**

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The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2009

	<u>Operating Fund</u>	<u>Long-term Reserve Fund</u>	<u>Timeshare Furniture Fund</u>	<u>Total</u>
Assets:				
Cash in banks	4,157	-	29,087	33,244
Member assessments receivable (net of allowance for doubtful accounts of \$2,682 in 2009)	18,846	-	-	18,846
Due from Gold Point Condominium	327	-	-	327
Due from Gold Point II Condominium	104	-	-	104
Unit supplies inventory	11,487	-	-	11,487
Prepaid expenses	16,019	-	-	16,019
Due from (to) other funds	12,521	20,442	(32,963)	-
Fixed assets (net of accumulated depreciation of \$4,688 in 2009)	35,495	-	-	35,495
Total Assets	<u>98,956</u>	<u>20,442</u>	<u>(3,876)</u>	<u>115,522</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	61,251	-	-	61,251
Deferred assessment revenue	4,390	-	-	4,390
Property taxes payable	19,935	-	-	19,935
Due to related parties	180,076	-	-	180,076
Due to Grand Timber Lodge	3,038	-	-	3,038
Leases payable	33,912	-	-	33,912
Total Liabilities	<u>302,602</u>	<u>-</u>	<u>-</u>	<u>302,602</u>
Fund Balances (Deficit)	<u>(203,646)</u>	<u>20,442</u>	<u>(3,876)</u>	<u>(187,080)</u>
Total Liabilities and Fund Balances (Deficit)	<u>98,956</u>	<u>20,442</u>	<u>(3,876)</u>	<u>115,522</u>

The accompanying notes are an integral part of these financial statements.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Fund Balances
For the Period Ended December 31, 2009

	From Inception of Operations, June 1, 2009 to December 31, 2009			
	Operating Fund	Long-term Reserve Fund	Timeshare Furniture Fund	Total
Revenues:				
Assessments, net of discounts	314,598	21,553	36,137	372,288
Developer subsidy	263,163	-	-	263,163
Interest income	-	-	1	1
Late fee revenue	4,865	-	-	4,865
Miscellaneous income	1,146	-	-	1,146
Total Revenues	583,772	21,553	36,138	641,463
Expenses:				
Accounting fees	2,340	-	-	2,340
Bad debt expense	2,682	-	-	2,682
Common area amenities	42,687	-	-	42,687
Common area cleaning	34,616	-	-	34,616
Credit card fees	1,381	-	-	1,381
Depreciation	4,688	-	-	4,688
Elevator maintenance	7,543	-	-	7,543
Fire alarm maintenance	1,295	-	-	1,295
Front desk and reservation fees	98,245	-	-	98,245
Hot tub and pool maintenance	20,290	-	-	20,290
Insurance	18,229	-	-	18,229
Interest	2,249	-	-	2,249
Management fees	23,550	-	-	23,550
Miscellaneous	187	-	-	187
Postage	1,743	-	-	1,743
Printing and key fobs	19,964	-	-	19,964
Professional fees	31	-	-	31
Property tax expense	19,935	-	-	19,935
Spring/fall cleaning	580	-	-	580
Television	3,493	-	-	3,493
Trash removal	3,910	-	-	3,910
Unit cleaning	146,031	-	-	146,031
Unit maintenance	151,323	-	-	151,323
Unit telephones	4,146	-	-	4,146
Unit utilities	161,088	-	-	161,088
Water and sanitation	15,192	-	-	15,192
Long-term reserve expenses	-	1,111	-	1,111
Furniture and inventory replacement	-	-	40,014	40,014
Total Expenses	787,418	1,111	40,014	828,543
Excess (Deficiency) of Revenues Over Expenses	(203,646)	20,442	(3,876)	(187,080)
Beginning Fund Balances	-	-	-	-
Ending Fund Balances (Deficit)	(203,646)	20,442	(3,876)	(187,080)

The accompanying notes are an integral part of these financial statements.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Period Ended December 31, 2009

	From Inception of Operations, June 1, 2009 to December 31, 2009			Total
	Operating Fund	Long-term Reserve Fund	Timeshare Furniture Fund	
Cash Flows From Operating Activities:				
Cash received from assessments	302,325	21,553	36,137	360,015
Interest received	-	-	1	1
Cash received from other sources	1,146	-	-	1,146
Cash transfers from (to) other funds	(12,521)	(20,442)	32,963	-
Cash payments for goods and services	(278,273)	(1,111)	(40,014)	(319,398)
Interest paid	(2,249)	-	-	(2,249)
Net Cash Provided (Used) By Operating Activities	<u>10,428</u>	<u>-</u>	<u>29,087</u>	<u>39,515</u>
Cash Flows From Investing Activities:				
Purchase of equipment	(2,161)	-	-	(2,161)
Net Cash Provided (Used) by Investing Activities	<u>(2,161)</u>	<u>-</u>	<u>-</u>	<u>(2,161)</u>
Cash Flows From Financing Activities:				
Capital lease principal payments	(4,110)	-	-	(4,110)
Net Cash Provided (Used) by Financing Activities	<u>(4,110)</u>	<u>-</u>	<u>-</u>	<u>(4,110)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,157	-	29,087	33,244
Net Cash and Cash Equivalents - Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash and Cash Equivalents - End of Year	<u>4,157</u>	<u>-</u>	<u>29,087</u>	<u>33,244</u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) By Operating Activities:				
Excess (deficiency) of revenues over expenses	(203,646)	20,442	(3,876)	(187,080)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Depreciation	4,688	-	-	4,688
(Increase) decrease in assessments receivable	(21,528)	-	-	(21,528)
Increase (decrease) in allowance for doubtful accounts	2,682	-	-	2,682
(Increase) decrease in inventory	(11,487)	-	-	(11,487)
(Increase) decrease in prepaid expenses	(16,019)	-	-	(16,019)
Cash transfers from (to) other funds	(12,521)	(20,442)	32,963	-
Increase (decrease) in accounts payable	61,251	-	-	61,251
Increase (decrease) in deferred assessment revenue	4,390	-	-	4,390
Increase (decrease) in property taxes payable	19,935	-	-	19,935
Increase (decrease) in due to related parties	180,076	-	-	180,076
Increase (decrease) in due to other associations	2,607	-	-	2,607
Total Adjustments	<u>214,074</u>	<u>(20,442)</u>	<u>32,963</u>	<u>226,595</u>
Net Cash Provided (Used) By Operating Activities	<u>10,428</u>	<u>-</u>	<u>29,087</u>	<u>39,515</u>
Noncash Investing and Financing Activities:				
Assets acquired via capital lease	<u>38,022</u>	<u>-</u>	<u>-</u>	<u>38,022</u>

The accompanying notes are an integral part of these financial statements.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009

1. Organization

The Grand Lodge on Peak 7 Owners Association, Inc., (the "Association") is a condominium association organized as a Colorado not-for-profit corporation for the purposes of maintaining and preserving common property of the Association. The Association, which is located in Breckenridge, Colorado, was incorporated on April 20, 2007. The Association began operations on June 1, 2009.

The property was developed by the Declarant, Peak 7 L.L.C. In accordance with the Association's declarations and the provisions of the Colorado Common Interest Ownership Act, the period of Declarant control commenced upon filing of the Articles of Incorporation and terminates when one of the following events occur:

- a. Sixty days after conveyance of 75% of the units that may be created to owners other than the Declarant;
- b. Two years after the last conveyance of a unit by a Declarant in the ordinary course of business;
- c. Two years after any right to add new units was last exercised.

The Association remained under Declarant control at December 31, 2009.

At December 31, 2009, the Association consisted of 38 units, which included 34 timeshare units with 52 owners per unit and 4 commercial units. The maximum number of units permitted in the Association's declarations is 250.

2. Summary of Significant Accounting Policies

A. Fund Accounting

The Association uses fund accounting, which requires that funds be classified separately for accounting and reporting purposes. As of December 31, 2009, the Association had the following funds:

Operating - Disbursements from this fund are generally at the discretion of the Board of Directors (the "Board") and the property manager.

Long-term Reserve - Disbursements from this fund generally may be made only for designated purposes.

Timeshare Furniture - Disbursements from this fund are designated for the replacement of unit furniture.

B. Investment Income Allocation

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

C. Subsequent Events

Management has evaluated subsequent events through March 24, 2010, the date these financial statements were available to be issued.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

2. Summary of Significant Accounting Policies (continued)

D. 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 are recorded at cost and are depreciated using the straight-line method over estimated useful lives of five years.

E. Basis of Accounting

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

F. Cash and Cash Equivalents

All checking and money market savings accounts are considered cash equivalents by the Association for the purpose of the Statements of Cash Flows since all funds are highly liquid with no stated maturities.

G. Common Assessments

Common assessments are the primary source of revenue for the Association. An annual budget, which is approved by the Board, is prepared to estimate the annual expenses of maintaining the Association's common elements. 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 Funds.

H. Due To/From Other Funds

The Association has chosen to record all accounts receivable and accounts payable in the Operating Fund. In accordance with generally accepted accounting principles, the differences in the individual funds caused by this accounting policy results in interfund asset and liability accounts on the financial statements.

I. Allowance for Uncollectible Accounts - Assessments

The Association utilizes the allowance method of recognizing the future potential uncollectibility of owner assessments receivable. This reserve is calculated based on the estimated percentage of potentially uncollectible accounts 180 or more days overdue. The Association's policy is to charge late fees to owner accounts that are 30 or more days overdue.

J. Inventory

Housekeeping supply inventory is valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The cost of inventory is recorded as an expense when consumed rather than when purchased.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

2. Summary of Significant Accounting Policies (continued)

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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Deferred Assessment Revenue

Deferred revenue represents prepaid assessments, and is composed of payments received in advance of the assessment billings of the next fiscal year.

3. 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.

4. Fixed Assets

Fixed assets are summarized below:

Description	Amount
Equipment	\$ 40,183
Less: Accumulated depreciation	(4,688)
Net Fixed Assets	\$ 35,495

Depreciation expense is computed on the straight-line basis and was \$4,688 for the period ended December 31, 2009.

5. Capital Lease

In 2009, the Association entered into a five-year agreement to acquire a trash compactor. The lease term ends April 2014; the Association retains ownership of the trash compactor at the end of the lease term. Interest accrues at a rate of 9.31 percent per annum. Interest expense for this lease was \$2,249 for the seven-month period ended December 31, 2009. Future debt service requirements are as follows:

Fiscal Year Ended	Principal	Interest	Total
2010	\$ 6,663	2,877	9,540
2011	7,310	2,230	9,540
2012	8,020	1,520	9,540
2013	8,800	740	9,540
2014	3,119	61	3,180
Total	\$ 33,912	7,428	41,340

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

5. Capital Lease (continued)

The net book value of the assets acquired under this lease as of December 31, 2009 is as follows:

Historical cost	\$ 38,022
Less: Accumulated depreciation	(4,436)
Net book value	<u><u>\$ 33,586</u></u>

6. Related Party Transactions

The Declarant pays assessments relating to its owned unit weeks throughout the period. The Association earned \$78,179 of 2009 revenue from the Declarant through assessments. The Declarant contributed an additional \$263,163 to the Association to help fund operations during the seven-month period ended December 31, 2009. The Association earned 53% of its total 2009 revenue from the Declarant.

During the fiscal period ended December 31, 2009, the Association incurred various expenses that were payable to the Declarant. The following is a schedule of transactions between the Association and the Declarant for the seven-month period ended December 31, 2009:

Accounting fees	\$ 2,340
Common area amenities	12,448
Common area cleaning	22,707
Front desk and reservation fees	98,245
Furniture Reserve expenses	3,491
Maintenance	122,139
Management fees	23,550
Other	4,775
Printing and key fobs	17,541
Unit cleaning	122,316
Total Expenses	<u><u>\$ 429,552</u></u>

During the fiscal period ended December 31, 2009, the Association incurred various expenses that were payable to Alma Laundry, L.L.C, a related party of the Declarant. The following is a schedule of transactions between the Association and Alma Laundry, L.L.C. for the seven-month period ended December 31, 2009:

Common area cleaning	\$ 11,909
Unit cleaning	23,465
Total Expenses	<u><u>\$ 35,374</u></u>

Approximately 56% of the Association's total 2009 expenses were related to services provided by related parties.

The net amount that the Association owed related parties was \$180,076 at December 31, 2009.

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2009
(Continued)

7. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future repairs, replacements and maintenance. Accumulated funds are held in a separate money market account and are generally not available for expenses for normal operations.

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. Assessments of \$21,553 and \$36,137 for the Long-term Reserve Fund and Timeshare Furniture Fund, respectively, were reported during the period ended December 31, 2009.

Funds being accumulated in the Long-term Reserve and Timeshare Furniture Funds are based on estimated costs for repairs and replacements of common property components. Actual expenditures and investment incomes may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated may not be adequate to meet all future needs for major repairs and replacements. 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.