

Durango Mountain Master Association, Inc.

**Independent Auditor's Report,
Financial Statements, and
Supplementary Information**

April 30, 2009 and 2008

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

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April 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Durango Mountain Master Association, Inc.

We have audited the accompanying balance sheets of *Durango Mountain Master Association, Inc.* (the Association), as of April 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 *Durango Mountain Master Association, Inc.* as of April 30, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Future Major Replacements and Repairs on page 14 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.



Sacramento, California
September 4, 2009

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Balance Sheet

April 30, 2009

	Operating Fund	Replacement Fund	Total
ASSETS			
Current Assets			
Cash	\$ 212,449	\$ 355,089	\$ 567,538
Assessments receivable	12,485	-	12,485
Related party receivable	89,812	-	89,812
Interfund receivable	-	393,625	393,625
Prepaid expenses and other current assets	6,447	-	6,447
Total current assets	321,193	748,714	1,069,907
Restricted Cash	48,934	-	48,934
Other Assets	43,218	-	43,218
Property and Equipment, Net	3,992,343	-	3,992,343
	<u>\$ 4,405,688</u>	<u>\$ 748,714</u>	<u>\$ 5,154,402</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 47,458	\$ -	\$ 47,458
Related party payable	69,392	-	69,392
Interfund payable	393,625	-	393,625
Current maturities of long-term debt	96,258	-	96,258
Total current liabilities	606,733	-	606,733
Security Deposits	48,934	-	48,934
Long-Term Debt, Net of Current Maturities	3,724,491	-	3,724,491
Total liabilities	4,380,158	-	4,380,158
Fund Balances	25,530	748,714	774,244
	<u>\$ 4,405,688</u>	<u>\$ 748,714</u>	<u>\$ 5,154,402</u>

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Balance Sheet

April 30, 2008

	Operating Fund	Replacement Fund	Total
ASSETS			
Current Assets			
Cash	\$ 155,803	\$ 16,043	\$ 171,846
Assessments receivable	20,422	-	20,422
Related party receivable	122,293	-	122,293
Interfund receivable	-	304,404	304,404
Prepaid expenses and other current assets	9,723	-	9,723
Total current assets	308,241	320,447	628,688
Restricted Cash	120,876	-	120,876
Property and Equipment, Net	874,199	-	874,199
	<u>\$ 1,303,316</u>	<u>\$ 320,447</u>	<u>\$ 1,623,763</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 7,202	\$ -	\$ 7,202
Related party payable	157,031	-	157,031
Interfund payable	304,404	-	304,404
Current maturities of long-term debt	70,413	-	70,413
Total current liabilities	539,050	-	539,050
Security Deposits	120,876	-	120,876
Long-Term Debt, Net of Current Maturities	636,126	-	636,126
Total liabilities	1,296,052	-	1,296,052
Fund Balances	7,264	320,447	327,711
	<u>\$ 1,303,316</u>	<u>\$ 320,447</u>	<u>\$ 1,623,763</u>

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Statement of Revenues, Expenses, and Changes in Fund Balances

For the year ended April 30, 2009

	Operating Fund	Replacement Fund	Total
Revenues			
Real estate transfer fees	\$ 444,668	\$ 91,752	\$ 536,420
Property assessments	229,662	-	229,662
Sales assessments	147,957	-	147,957
Lodging assessments	89,946	-	89,946
Outside member initiation fees	-	364,000	364,000
Interest and other income	6,328	1,262	7,590
Total revenues	918,561	457,014	1,375,575
Expenses			
Community Center, net	158,936	-	158,936
Durango Mountain Club, net	195,689	-	195,689
Landscaping, snow and trash removal	94,623	-	94,623
Janitorial	79,000	-	79,000
Management and accounting fees	69,000	-	69,000
Security	68,000	-	68,000
Shuttle service	64,000	-	64,000
Insurance	1,524	-	1,524
Supplies and materials	23,324	-	23,324
Utilities	22,870	-	22,870
Repairs and maintenance	8,372	28,747	37,119
Other	40,729	-	40,729
Interest	74,228	-	74,228
Total expenses	900,295	28,747	929,042
(Deficiency) Excess of Revenues of Expenses	18,266	428,267	446,533
Beginning Fund Balances	7,264	320,447	327,711
Ending Fund Balances	\$ 25,530	\$ 748,714	\$ 774,244

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Statement of Revenues, Expenses, and Changes in Fund Balances

For the year ended April 30, 2008

	Operating Fund	Replacement Fund	Total
Revenues			
Real estate transfer fees	\$ 176,013	\$ 161,939	\$ 337,952
Property assessments	204,236	-	204,236
Sales assessments	166,128	-	166,128
Lodging assessments	78,637	-	78,637
Interest and other income	10,210	161	10,371
Total revenues	635,224	162,100	797,324
Expenses			
Community Center, net	193,360	-	193,360
Landscaping, snow and trash removal	108,283	-	108,283
Janitorial	77,000	-	77,000
Management and accounting fees	67,000	-	67,000
Security	64,000	-	64,000
Shuttle service	62,000	-	62,000
Insurance	5,000	-	5,000
Supplies and materials	20,863	-	20,863
Utilities	20,178	-	20,178
Repairs and maintenance	16,847	1,275	18,122
Other	12,004	-	12,004
Pool	11,000	-	11,000
Total expenses	657,535	1,275	658,810
(Deficiency) Excess of Revenue of Expenses	(22,311)	160,825	138,514
Beginning Fund Balances	29,575	159,622	189,197
Ending Fund Balances	\$ 7,264	\$ 320,447	\$ 327,711

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Statement of Cash Flows

For the year ended April 30, 2009

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Cash received from assessments and real estate transfer fees	\$ 998,115	\$ 455,752	\$ 1,453,867
Cash paid to suppliers	(981,488)	(28,747)	(1,010,235)
Interest received	4,396	1,262	5,658
Net cash from operating activities	<u>21,023</u>	<u>428,267</u>	<u>449,290</u>
Cash Flows from Investing Activities			
Purchase of property and equipment	(3,195,042)	-	(3,195,042)
Change in restricted cash	71,942	-	71,942
Changes in interfund receivables and payables	89,221	(89,221)	-
Net cash from investing activities	<u>(3,033,879)</u>	<u>(89,221)</u>	<u>(3,123,100)</u>
Cash Flows from Financing Activities			
Loan fees paid	(44,708)	-	(44,708)
Proceeds from issuance of long-term debt	3,585,000	-	3,585,000
Principal payments on long-term debt	(470,790)	-	(470,790)
Net cash from financing activities	<u>3,069,502</u>	<u>-</u>	<u>3,069,502</u>
NET CHANGE IN CASH	56,646	339,046	395,692
Cash, beginning of year	155,803	16,043	171,846
Cash, end of year	<u>\$ 212,449</u>	<u>\$ 355,089</u>	<u>\$ 567,538</u>
Reconciliation of Excess of Revenues Over Expenses to Net Cash from Operating Activities:			
Excess of Revenues Over Expenses	\$ 18,266	\$ 428,267	\$ 446,533
Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash from Operating Activities:			
Depreciation and amortization	78,388	-	78,388
(Increase) Decrease in:			
Assessments receivable	7,937	-	7,937
Related party receivable	32,481	-	32,481
Prepaid expenses and other current assets	3,276	-	3,276
Increase (decrease) in:			
Accounts payable and accrued expenses	40,256	-	40,256
Related party payable	(87,639)	-	(87,639)
Security deposits	(71,942)	-	(71,942)
Net cash from operating activities	<u>\$ 21,023</u>	<u>\$ 428,267</u>	<u>\$ 449,290</u>
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for interest	\$ 74,229	\$ -	\$ 74,229

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Statement of Cash Flows

For the year ended April 30, 2008

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Cash received from assessments and real estate transfer fees	\$ 583,691	\$ 161,939	\$ 745,630
Cash paid to suppliers	(628,198)	(1,275)	(629,473)
Interest received	7,785	161	7,946
Net cash from operating activities	<u>(36,722)</u>	<u>160,825</u>	<u>124,103</u>
Cash Flows from Investing Activities			
Purchase of property and equipment	(22,120)	-	(22,120)
Change in restricted cash	(21,872)	-	(21,872)
Changes in interfund receivables and payables	160,664	(160,664)	-
Net cash from investing activities	<u>116,672</u>	<u>(160,664)</u>	<u>(43,992)</u>
Cash Flows from Financing Activities			
Principal payments on long-term debt	(61,013)	-	(61,013)
Net cash from financing activities	<u>(61,013)</u>	<u>-</u>	<u>(61,013)</u>
NET CHANGE IN CASH	18,937	161	19,098
Cash, beginning of year	136,866	15,882	152,748
Cash, end of year	<u>\$ 155,803</u>	<u>\$ 16,043</u>	<u>\$ 171,846</u>
Reconciliation of (Deficiency) Excess of Revenues Over Expenses to Net Cash from Operating Activities:			
(Deficiency) Excess of Revenues Over Expenses	\$ (22,311)	\$ 160,825	\$ 138,514
Adjustments to Reconcile (Deficiency) Excess of Revenues Over Expenses to Net Cash from Operating Activities:			
Depreciation	42,888	-	42,888
(Increase) decrease in:			
Assessments receivable	17,570	-	17,570
Related party receivable	(82,046)	-	(82,046)
Prepaid expenses and other current assets	771	-	771
Increase (decrease) in:			
Accounts payable and accrued expenses	(18,623)	-	(18,623)
Related party payable	3,157	-	3,157
Security deposits	21,872	-	21,872
Net cash from operating activities	<u>\$ (36,722)</u>	<u>\$ 160,825</u>	<u>\$ 124,103</u>
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for interest	\$ 58,276	\$ -	\$ 58,276

See accompanying notes

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Notes to Financial Statements

1. GENERAL:

Durango Mountain Master Association, Inc. (the “Association” or “DMMA”) is a Colorado corporation. The Association was incorporated for the specific and primary purpose to promote the health, safety, and welfare of all members of the Association and to establish and maintain a desirable community and environment for all owners, lessees, and guests. The Association also implements and enforces architectural controls of lots and parcels, and provides for the ownership, management, administration, maintenance, and preservation of common areas, improvements and facilities within the master-planned community known as Durango Mountain Resort.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. These fees are also available to be used for any operating shortfall that may occur during the fiscal year.

Cash and Cash Equivalents - The Association considers all highly liquid investments with a maturity from the date of purchase of three months or less to be cash equivalents for the purpose of balance sheet and statement of cash flows presentation.

Security Deposits and Restricted Cash - To implement and enforce architectural control over aesthetic issues as specified in the Design Review Guidelines, the Association requires a deposit from each multi-family, mixed-use project, and/or single family residence equal to \$1.00 for every square foot of facility space. This deposit is refunded once the Design Review Board has inspected and approved the completed project and the lot has been re-vegetated and cleaned up. As of April 30, 2009 and 2008 there was approximately \$49,000 and \$121,000, respectively, in security deposits reflected in restricted cash and the corresponding liability as security deposits.

Property and Equipment - The Association capitalizes all property and equipment to which it has title or other evidence of ownership. Property and equipment acquired by the Association is recorded at cost and property contributed to the Association by the developer is recorded at estimated fair value at the date of contribution.

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*):

Depreciation - Capitalized common property is depreciated over its estimated useful life of 5 to 27.5 years, using the straight-line method of depreciation.

Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are significantly delinquent. The Association considers all assessments receivable at April 30, 2009 and 2008 to be fully collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Revenue Recognition - The Association generates revenue from three major sources, all of which can be used for any Association expenditure including and without limitation, the construction, acquisition or purchase of capital improvements and equipment. These revenue sources are as follows:

Real Estate Transfer Fee

The real estate transfer fee is a 2% fee levied on the buyer of property within the DMMA community based on the fair market value or sales price of the property. Real estate transfer fees are due and payable at the time of sale or transfer.

Sales and Lodging Assessment

The Association levies and collects from each first class member an assessment of 4.0% on all sales of tangible property and services rendered within the Durango Mountain Master Community. Services rendered specifically include the participation of members in any residential rental program. Sales and lodging assessments are recorded in the period the sale occurs or the service is rendered.

Property Assessment

The property assessment is levied and collected from each property owner within the DMMA community on an annual basis. The property assessment is established by the board of directors, and is allocated to each residential and commercial unit, based on its value in proportion to the total value of all Association encumbered properties.

Outside Member Initiation Fees

The Association has made available to non-resident owners a limited number of memberships in the Durango Mountain Club (the "Club"). There are four types of memberships available; individual, couple, family and corporate. All memberships at the Club are non-equity memberships and are not entitled to vote in the affairs of the Association. Members are entitled to use the facilities of the Club and pay an initiation fee and annual dues.

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Notes to Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*):

Income Taxes - Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the years ended April 30, 2009 and 2008, the Association was taxed as a regular corporation and filed Form 1120, and as a result there were no income taxes due. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal and state corporate rates.

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

Reclassifications - Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

3. CONCENTRATIONS:

The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits.

4. PROPERTY AND EQUIPMENT:

Property and equipment at April 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 100,000	\$ 100,000
Building and improvements	3,737,679	903,679
Construction in progress	52,000	52,000
Equipment and furnishings	416,107	64,065
Other	9,000	-
	<u>4,314,786</u>	<u>1,119,744</u>
Less accumulated depreciation	<u>322,443</u>	<u>245,545</u>
	<u>\$ 3,992,343</u>	<u>\$ 874,199</u>

Depreciation expense for the years ended April 30, 2009 and 2008 was \$76,898 and \$42,888, respectively.

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Notes to Financial Statements

5. LONG-TERM DEBT:

Long-term debt at April 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Purgatory Village Land, LLC, collateralized by buildings and land, monthly payments of \$5,303 including interest at 5% due June 2013.	\$ 238,917	\$ 289,238
Alpine Bank of Durango, collateralized by buildings and land, monthly payments of \$21,690 including interest at 6% due March 2014.	3,581,832	-
First National Bank of Durango, collateralized by buildings and land, monthly payments of \$3,983 including interest at Prime + 1%, due August 2021.	-	417,301
	<u>3,820,749</u>	<u>706,539</u>
Less current maturities	<u>96,258</u>	<u>70,413</u>
	<u>\$ 3,724,491</u>	<u>\$ 636,126</u>

Aggregate annual maturities of long-term debt are as follows:

<u>Year Ending April 30:</u>	<u>Amount</u>
2010	\$ 96,258
2011	101,681
2012	107,412
2013	113,468
2014	<u>3,401,930</u>
Total	<u>\$ 3,820,749</u>

Interest expense for the years ended April 30, 2009 and 2008 was \$74,228 and \$58,276, respectively.

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Notes to Financial Statements

6. RELATED PARTY TRANSACTIONS:

The Association has contracted with DSC/Purgatory, LLC (dba DMR), who is the resort operator, community developer, and Declarant of the Association. As Declarant, DMR controls the board of directors until such time as the majority of the planned development of the Durango Mountain Resort has been completed. The Association has entered into a management agreement with DMR to manage its operations. Pursuant to this agreement, the Association incurred \$69,000 and \$67,000 in management fees during the fiscal years ended April 30, 2009 and 2008, respectively. In addition to the management agreement, the Association contracts with DMR to provide various services to the resort community including landscaping, snow and trash removal, security, shuttle, janitorial and labor costs to operate the community center amenity. Fees paid to DMR for these services were approximately \$371,600 and \$364,300 during the fiscal years ended April 30, 2009 and 2008, respectively. The Association receives its sales and lodging revenues from DMR, which amounted to \$199,678 and \$199,507 during the fiscal years ended April 30, 2009 and 2008, respectively. At April 30, 2009 and 2008, the Association owed DMR \$69,392 and \$157,031, respectively, and had receivables from DMR of \$89,812 and \$122,293, respectively.

In addition, the Association has a loan from Purgatory Village Land, LLC, an affiliate of DMR, for the original purchase of the Association's community center land and building. The loan balance at April 30, 2009 and 2008 was \$238,917 and \$289,238, respectively.

The Association purchased the Durango Mountain Club from Durango Pinnacle Partners, LLC (DPP), an affiliate of DMR, for \$3,056,000 in March 2009.

7. FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$749,000 and \$320,000 (includes receivables from the operating fund of approximately \$394,000 and \$304,000) at April 30, 2009 and 2008, respectively, are held in a separate account and are generally not available for operating purposes.

In prior years, the Association had funded actual major repairs and replacement expenditures from budgeted and accumulated real estate transfer fees not used for operating fund purposes.

The funding program was based on a study performed by the Association's management in April 2009 to estimate the remaining useful lives and replacement costs of the common property components at April 30, 2009.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on management's estimates of current replacement costs, considering the owned facilities were newly constructed within the past five years. 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 annual property assessments or levy a special assessment, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

DURANGO MOUNTAIN MASTER ASSOCIATION, INC.

Supplementary Schedule

Future Major Repairs and Replacements (Unaudited)

The Association's management conducted a study in April 2009 to estimate the remaining useful lives and the replacement costs of the components of common properties. Replacement costs were based on the estimated costs to repair or replace the common property components at fiscal year end. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest thousand dollars).

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Community Center Estimated Current Replacement Cost</u>	<u>Durango Mtn. Club Estimated Current Replacement Cost</u>	<u>Estimated Current Replacement Cost</u>
Roof	25	\$ 100,000	\$ 100,000	\$ 200,000
Exteriors	20	85,000	200,000	285,000
Interior finish	15	50,000	200,000	250,000
Furniture and equipment	15	50,000	350,000	400,000
Hot tub	10	15,000	450,000	465,000
Wiring and plumbing	40	<u>50,000</u>	<u>200,000</u>	<u>250,000</u>
Total		<u>\$ 350,000</u>	<u>\$ 1,500,000</u>	<u>\$ 1,850,000</u>