SPINNAKER AT LAKE DILLON CONDOMINIUM ASSOCIATION

Financial Statements As Of March 31, 2012

Together With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Spinnaker at Lake Dillon Condominium Association.:

We have audited the accompanying balance sheet of Spinnaker at Lake Dillon Condominium Association. (the "Association") as of March 31, 2012, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year 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 auditing standards generally accepted in the United States of America. 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 Spinnaker at Lake Dillon Condominium Association. as of March 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Supplemental Information on Future Major Repairs and Replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by accounting principles generally accepted in the United States of America who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

JDS Professional Group

November 27, 2012

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**SPINNAKER AT LAKE DILLON
CONDOMINIUM ASSOCIATION**

Balance Sheet
As Of March 31, 2012

	Operating Fund	Replacement Fund	Total Funds
ASSETS			
Cash	$ 134,257	$	$ 134,257
Assessments receivable, net of allowance of $24,984	5,522		5,522
Investments	100,407		100,407
Assets held for sale	14,212		14,212
Due to/from fund	(164,473)	164,473	
TOTAL ASSETS	$ 89,925	$ 164,473	$ 254,398
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 17,062	$	$ 17,062
Prepaid assessments	7,992		7,992
Total Liabilities	$ 25,054	$	$ 25,054
Fund Balances:			
Operating	64,871		64,871
Designated for future major repairs and replacements		164,473	164,473
Total Fund Balances	64,871	164,473	229,344
TOTAL LIABILITIES AND FUND BALANCES	$ 89,925	$ 164,473	$ 254,398

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

SPINNAKER AT LAKE DILLON
CONDOMINIUM ASSOCIATION

Statement Of Revenues and Expenses
For The Year Ended March 31, 2012

	Operating Fund	Replacement Fund	Total Funds
Revenue:			
Assessments	$ 440,480	$ 160,000	$ 600,480
Interest	902		902
Late fees and other income	15,207		15,207
Total Revenue	456,589	160,000	616,589
Expenses:			
Administrative-			
Management fees	115,860		115,860
Insurance	8,034		8,034
Legal and accounting fees	30,684		30,684
Administrative services	50,041		50,041
Grounds-			
Maintenance and improvements	21,860		21,860
Trash removal	2,979		2,979
Snow removal	3,453		3,453
Bad debts	19,009		19,009
Utilities-			
Water and sewer	24,192		24,192
Gas and electricity	58,207		58,207
Cable	17,853		17,853
Repairs and maintenance	104,865	61,410	166,275
Total Expenses	457,037	61,410	518,447
EXCESS OF REVENUE OVER EXPENSES	(448)	98,590	98,142
Fund Balances, Beginning Of Year	65,319	65,883	131,202
FUND BALANCES, END OF YEAR	$ 64,871	$ 164,473	$ 229,344

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

SPINNAKER AT LAKE DILLON
CONDOMINIUM ASSOCIATION

Statement Of Cash Flows
For The Year Ended March 31, 2012

	Operating Fund	Replacement Fund	Total Funds
Cash flows from operating activities:			
Excess of revenue over expenses	$ (448)	$ 98,590	$ 98,142
Adjustments to reconcile excess of revenue over expenses provided by opertaing activities:			
Bad debt expense	19,009		19,009
(Increase) in assessments receivable	(19,988)		(19,988)
Increase in accounts payable	8,707		8,707
(Decrease) in prepaid assessments	(4,006)		(4,006)
Net cash provided by operating activities	3,274	98,590	101,864
Cash flows from financing activities:			
Interfund transfers	98,590	(98,590)	
Net cash provided by (used in) financing activities	98,590	(98,590)	
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,864		101,864
Cash And Cash Equivalents, Beginning Of Year	32,393		32,393
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 134,257	$	$ 134,257

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

(1) Nature Of Organization

Spinnaker at Lake Dillon Condominium Association, (the "Association") is a statutory homeowners' association organized and incorporated on April 7, 1982, for the purpose of maintaining and preserving common areas of the development owned jointly by members of the Association. The development consists of 28 residential units, 21 are interval owned and 7 are whole owned in Summit County, Colorado.

The Association conducts only one line of business, which is the providing of management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

(2) Summary Of Significant Accounting Policies

Method Of Accounting

The financial statements of the Association have been prepared on the accrual basis. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Cash And Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, demand deposits, and money market accounts. The Association considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fund Accounting

The Association has segregated its activities into two funds; the operating fund, and the replacement fund. The operating fund accounts for all current operating transactions of the Association. The replacement fund accounts for member capital contributions, to provide for the future repair and replacement of the Association's common areas.

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 reported period. Actual results could differ from those estimates.

Assessments And Assessments Receivable

Assessments receivable represents amounts due from members whose units are located within the area of Spinnaker at Lake Dillon Condominium Association. The Association has the right to levy liens on a member's property to insure payment of an assessment due to the Association. The Association's policy is to place liens on the properties of homeowners whose assessments are delinquent thirty days or more after written notice by the Association. Any excess assessments at year end are retained by the Association for use in future years. Management believes some receivable balances are not collectible and, therefore, an allowance for doubtful accounts is recorded.

The Association set annual assessment fees which are billed quarterly to the seven whole owned units and semi-annually to the 21 interval owned units. As of March 31, 2012, the annual fees for the seven whole owned units ranged from $6,545 to $10,069, and the annual fees for the interval units ranged from $289 to $679 based on the type of unit. These assessments are used to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements.

Prepaid assessments of $7,992 as of March 31, 2012, represents the amounts received in 2012 for assessments relating to the next year.

Fair Value Measurements

The Association follows *Fair Value Measurements,* which requires enhanced disclosures about investments that are measured and reported at fair value and establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: The fair value of the certificates of deposit is based on amortized cost or original cost plus accrued interest.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The carrying amount reported in the statement of financial position for cash and cash equivalents, receivables, and payables, approximate fair value because of the immediate or short-term maturities of these financial instruments.

Property And Equipment

Real property common areas acquired by the original owners from the developer are not capitalized on the Association's financial statements as they are owned by the individual owners and not the Association.

Evaluation Of Subsequent Events

The Association has performed an evaluation of subsequent events through November 27, 2012, which is the date the financial statements were available to be issued and considered any relevant matters in the preparation of the financial statements and footnotes.

(3) Income Taxes

The Association uses the asset and liability method as identified in the Accounting for Income Taxes accounting standard, whereby current and deferred tax assets and liabilities are determined to based on tax rates and laws enacted as of the balance sheet date. Deferred tax expenses represents the change in deferred tax asset and liability balances.

Generally, the Association is taxed as a regular corporation. Certain provisions of the Internal Revenue Code provide that membership expenses of the Association may only be deducted to the extent of membership income. Accordingly, the Association has excess net membership losses which may not be used to offset net non-membership income. Accumulated membership losses may not be carried back; however, they may be carried forward indefinitely to offset future net membership income.

The Association follows *Accounting for Uncertainty in Income Taxes* which clarifies the accounting and reporting for uncertainties in income tax law. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. The standard also provides guidance related to de-recognition, classification, and interest and penalties. During the year ended March 31, 2012, the Association performed an evaluation of uncertain tax positions and did not note any matters that would require recognition or which may have an affect on its tax-exempt status.

The Association is no longer subject to U.S. federal and state income tax audits on its Form 1120 and related state return by taxing authorities for fiscal years through 2008 and 2007, respectively. The years subsequent to these years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions, and tax credits. Although the outcome of tax audits is uncertain, the Association believes no issues would arise.

(4) <u>Investments And Concentration Of Credit Risk</u>

The Association consists of certificates of deposit and are held in Level 1 investment.

The Association's cash demand deposits are held at a financial institution at which deposits in interest bearing accounts are insured up to $250,000 by the FDIC. As of March 31, 2012, the Association's deposits did not exceed the FDIC limit.

(5) <u>Future Major Repairs And Replacements</u>

The Association's governing documents require funds to be accumulated for the replacement of its common areas and interval assets. Such funds are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such items are needed.

It is the Association's policy to fund its reserves on a monthly basis. The Association reviews the reserve funding program quarterly at its regular meetings. The last review was performed as part of the budget process for the current year.

The Association is funding such repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, the 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, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

6) **Income Taxes**

As discussed in Note 3, the Association uses the asset and liability method as identified in the *Accounting for Income Taxes* accounting standard, whereby current and deferred tax assets and liabilities are determined based on tax rates and laws enacted as of the balance sheet date. Deferred tax expense represents the change in deferred tax asset and liability balances.

Deferred income taxes for the year ended March 31, 2012, reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial reporting purposes and such amounts as measured in accordance with tax laws. In general, these temporary differences are more inclusive than timing differences recognized under previously applicable accounting principles. Deferred tax asset comprises of net operating loss carry forwards.

Deferred tax asset	$ 5,059
Less: valuation allowance	(5,059)
Net deferred tax asset	$

The valuation allowance has been established based upon, among other factors, historical operations, average taxable income since inception, and industry conditions.

Future expiration of the net operating loss carryforwards are as follows:

Net Operating Loss Year	Amount
2005	$ 1,172
2008	366
2009	2,055
2010	2,915
2011	5,608
2012	14,022

SPINNAKER AT LAKE DILLON
CONDOMINIUM ASSOCIATION

The Board of Directors reviewed in depth the Replacement Reserve Analysis in conjunction with the budgeting process, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on a pooled calculation without provisions for inflation or for taxes.

The following table presents significant information about the components of common and interval property.

Component	Estimated Remaining Useful life (Years)	Replacement Cost	3/31/12 Balance*	2013 Annual Funding*
Common Areas				
Exterior wood siding	5 years	$ 99,165		
Driveway	5 years	40,000		
Pool and hot tub	1-10 years	189,675		
Walk, patio, sidewalk and parking Lot resurface	4-11 years	66,679		
Roof	11 years	63,000		
Elevator	10 years	15,000		
Boilers	17 years	60,000		
Air handlers	10 years	12,000		
Windows	25 years	217,712		
Other		85,962		
		849,193		
Interval				
Carpet	1-3 years	76,000		
Blinds	1 years	41,850		
Furniture	1-21 years	256,917		
Appliances	1-7 years	261,435		
Kitchen/bath remodel	5 years	490,350		
Pool	9 years	73,500		
Office		21,000		
Miscellaneous items		25,825		
		1,246,877		
Total		$ 2,096,070	$ 164,473	$ 170,000

* Detail information is not provided in study