

Beaver Creek Resort Company of Colorado

Financial Report

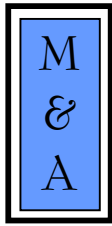
September 30, 2008



**Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
September 30, 2008**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors Beaver Creek Resort Company of Colorado Beaver Creek, Colorado

We have audited the accompanying statement of financial position of Beaver Creek Resort Company of Colorado, (the "Organization"), a Colorado nonprofit corporation, as of September 30, 2008 and September 30, 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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.

The accompanying financial statements were prepared for the purpose of complying with terms of debt agreements as described in note 2(a) and are not intended to be a complete presentation of the Organization's assets, liabilities, net assets, revenues, expenses, and cash flows.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2008 and September 30, 2007 and the changes in its net assets and its cash flows for the years then ended, pursuant to debt terms described in note 2(a), in conformity with accounting principles generally accepted in the United States of America.

**McMahan and Associates, L.L.C.
December 12, 2008**

Performing services for non-profit organizations throughout Colorado

*D. Jerry McMahan, C.P.A.
Paul J. Backes, C.P.A.*

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Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Statements of Financial Position
September 30, 2008
(Basis compliant with Debt covenants)
With Comparative Totals For the Year Ended 2007

	<u>2008</u>	<u>2007</u>
Assets:		
Current assets:		
Cash and cash equivalents	4,892,726	5,352,963
Investments	-	2,000,000
Accounts receivable:		
Real estate transfer assessments	41,093	38,550
Civic assessments	180,490	274,138
Recreation assessments	50,981	124,907
Related parties	88,632	63,176
Other	63,041	94,626
Prepaid expenses	355,106	495,564
Deposits	87,124	135,824
Notes receivable - current	130,037	71,750
Inventory	26,000	-
Total Current Assets	<u>5,915,230</u>	<u>8,651,498</u>
Other Assets:		
Notes receivable - long term	143,194	176,186
Total Other Assets	<u>143,194</u>	<u>176,186</u>
Fixed assets:		
Property and equipment, at cost	17,612,305	16,272,900
Accumulated depreciation	(8,219,803)	(7,180,191)
Net Fixed Assets	<u>9,392,502</u>	<u>9,092,709</u>
Total Assets	<u>15,450,926</u>	<u>17,920,393</u>
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable:		
Vendors	1,497,676	503,550
Related parties	97,607	11,899
Accrued payroll and related expenses	51,725	41,000
Gift certificates	-	3,593
Deferred revenue	500	-
Deposits	789,801	953,860
Retainage payable	-	196,923
Current portion of notes payable	503,912	399,964
Total Current Liabilities	<u>2,941,221</u>	<u>2,110,789</u>
Non-Current liabilities:		
Notes payable	155,131	2,501,929
Total Non-Current Liabilities	<u>155,131</u>	<u>2,501,929</u>
Total Liabilities	<u>3,096,352</u>	<u>4,612,718</u>
Net Assets:		
Unrestricted net assets	12,354,574	13,307,675
Total Net Assets	<u>12,354,574</u>	<u>13,307,675</u>
Total Liabilities and Net Assets	<u>15,450,926</u>	<u>17,920,393</u>

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

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2008
(Basis compliant with Debt covenants)
With Comparative Totals For the Year Ended 2007

	<u>2008</u>	<u>2007</u>
Revenues:		
Assessments:		
Civic assessments	7,160,681	6,860,434
Lodging civic assessments	633,008	610,582
Recreation and mountain assessments	4,393,959	4,212,801
Real estate transfer assessment	5,888,262	14,142,255
Other income:		
Design Review Board fees	85,727	68,234
Business licenses	53,200	60,800
Contribution revenue	150,000	322,936
Ice Rink Revenues	262,395	238,164
Investment income	173,357	275,450
Other income	3,610	7,286
	<u>18,804,199</u>	<u>26,798,942</u>
Total Revenues		
Expenses:		
Administration	1,876,777	1,722,975
Activities and events	3,225,241	2,691,512
Professional services	389,201	434,085
Marketing	4,413,725	4,334,785
Transportation	2,282,240	1,526,979
Property maintenance	1,822,070	1,637,632
Public safety	2,318,811	1,965,431
Design review board	206,994	216,339
Memberships and licenses	67,342	57,760
Donations	378,948	248,769
Contingency and taxes	27,666	26,923
Other expense	73	85,079
Interest	133,801	440,346
Depreciation	1,216,601	1,014,284
Contributions	1,397,810	3,547,336
	<u>19,757,300</u>	<u>19,950,235</u>
Total Expenses		
Change in Net Assets	(953,101)	6,848,707
Net Assets - Beginning of Year	<u>13,307,675</u>	<u>6,458,968</u>
Net Assets - End of Year	<u><u>12,354,574</u></u>	<u><u>13,307,675</u></u>

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

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended September 30, 2008
(Basis compliant with Debt covenants)
With Comparative Totals For the Year Ended 2007

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities:		
Cash received from assessments	18,218,831	26,025,495
Cash received from other sources	529,637	439,183
Cash received from interest earnings	201,596	263,143
Cash paid for goods and services	(17,495,593)	(19,016,890)
Cash paid for interest	(148,649)	(444,645)
Net Cash Provided by Operating Activities	<u>1,305,822</u>	<u>7,266,286</u>
Cash Flows From Investing Activities:		
Cash received from sale of fixed asset	-	6,180
Cash received from sale of investments	2,000,000	1,389,000
Cash paid for fixed assets	(1,523,209)	(3,696,419)
Cash paid for investments	-	(2,000,000)
Net Cash Provided (Used) by Investing Activities	<u>476,791</u>	<u>(4,301,239)</u>
Cash Flows From Financing Activities:		
Principal payments on debt	(2,242,850)	(814,874)
Net Cash Provided (Used) by Financing Activities	<u>(2,242,850)</u>	<u>(814,874)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(460,237)	2,150,173
Cash and Cash Equivalents - Beginning of Year	<u>5,352,963</u>	<u>3,202,790</u>
Cash and Cash Equivalents - End of Year	<u><u>4,892,726</u></u>	<u><u>5,352,963</u></u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in Net Assets	<u>(953,101)</u>	<u>6,848,707</u>
Change in assets and liabilities:		
Depreciation	1,216,601	1,014,284
Loss (gain) on disposal of fixed assets	6,815	2,480
(Increase) decrease in accounts receivable	171,160	187,118
(Increase) decrease in prepaid expenses	140,458	(287,883)
(Increase) decrease in deposits held by others	48,700	(53,551)
(Increase) decrease in notes receivable	(25,295)	(247,936)
(Increase) decrease in inventory	(26,000)	-
Increase (decrease) in accounts payable	1,079,834	(556,205)
Increase (decrease) in accrued payroll	10,725	41,000
Increase (decrease) in gift certificates	(3,593)	3,593
Increase (decrease) in deferred revenue	500	(325)
Increase (decrease) in deposit liability	(164,059)	137,917
Increase (decrease) in retainage payable	(196,923)	177,087
Total change in assets and liabilities	<u>2,258,923</u>	<u>417,579</u>
Net Cash Provided by Operating Activities	<u><u>1,305,822</u></u>	<u><u>7,266,286</u></u>

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

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008

1. Organization

Beaver Creek Resort Company of Colorado (“BCRC”) was incorporated as a Colorado not-for-profit corporation pursuant to Articles of Incorporation filed May 4, 1979, and subsequently amended. The BCRC’s members are businesses and individuals with real property interest in the Beaver Creek subdivision located in Eagle County, Colorado. BCRC’s bylaws, as modified in 1997, provide for a nine-member Board of directors (the “Board”). Four of the directors are appointed by Vail Resorts, Inc. (Vail Resorts). The remaining five directors are representatives of the residential, lodging, and commercial communities of the Beaver Creek subdivision. Because of its property ownership percentage, Vail Resorts has the power to elect one of the remaining five directors.

During 2005, BCRC established Rink Productions, Inc. (RPI) as a separate not-for-profit corporation for the primary purpose of hosting community events and making application for special event permits. RPI was incorporated, as a wholly owned subsidiary of BCRC, pursuant to Articles of Incorporation filed on May 12, 2005.

BCRC and its wholly owned subsidiary, RPI (collectively, the “Organization”) provides various services related to the Beaver Creek area including marketing, security, transportation, architectural review, property maintenance, recreational activities, and various other support services.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

These consolidated financial statements include the accounts of BCRC and its wholly owned subsidiary, RPI. All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements.

The accompanying financial statements have been prepared on the accrual basis of accounting. All amounts recorded in the statements of activities result from unrestricted activity. There are no assets subject to donor restrictions.

In fiscal 1996, BCRC became the sole member of the Vilar Center Arts Foundation (the “Arts Foundation”), and currently has the power to appoint the Arts Foundation’s directors. The financial statements do not include the assets, liabilities, revenues, expenses, and cash flows of the Arts Foundation. Under accounting principles generally accepted in the United States of America, consolidation is required between the BCRC and the Arts Foundation. These financial statements are prepared in accordance with the BCRC’s debt terms, which require that only the assets, liabilities, net assets, revenues, expenses, and cash flows of the Organization be reported. Therefore, the financial statements do not represent the consolidated assets, liabilities, net assets, revenues, expenses, and cash flows of the Organization and the Arts Foundation, but are otherwise prepared in conformity with principles generally accepted in the United States of America.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

2. Summary of Significant Accounting Policies (continued)

A. Basis of Accounting (continued)

At September 30, 2008, the Arts Foundation reported in its separately audited financial statements the following:

	<u>2008</u>	<u>2007</u>
Total assets	17,163,796	17,881,711
Total liabilities	246,680	542,292
Total net assets	16,917,116	17,339,419
Total revenues	4,333,067	4,833,753
Total expenses	4,755,370	3,719,286

B. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers checking, money market savings, money market funds and investments with an original maturity of three months or less to be cash equivalents since these accounts are highly liquid or have no stated maturities.

C. Investments

Investments consist of certificates of deposit. These investments are reported at their fair value.

D. Allowance for Uncollectible Accounts

The Organization uses the allowance method for recognizing the future potential uncollectibility of accounts receivable. At September 30, 2008, an allowance for doubtful accounts of \$86,529 was established.

E. Assessments

The Board prepares an annual budget to estimate the annual expenses of the Organization. BCRC's Declarations empower the levying of the following assessments:

- (1) Civic Assessment:** A monthly Civic Assessment of 5.35% is assessed on sales of tangible personal property from businesses located in the Beaver Creek Resort area.
- (2) Lodging Civic Assessment:** A monthly Lodging Civic Assessment of .96% is assessed on short-term lodging revenue provided by businesses and individuals located in the Beaver Creek Resort area.
- (3) Recreation and Mountain Assessment:** A monthly assessment of 5% is assessed on gross receipts from the sale of recreational services, which include lift ticket sales, ski lessons, golf course greens fees, spa services, and equipment rentals.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

2. Summary of Significant Accounting Policies (continued)

E. Assessments (continued)

(4) Real Estate Transfer Assessment: An assessment of 2.375% is charged against the transferee upon the transfer of real property, as defined in BCRC's bylaws.

F. Income Taxes

For federal income tax purposes, as of October 1, 1997, BCRC has qualified as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes on its related income.

Since RPI's activities are not considered to be within BCRC's tax-exempt purpose, RPI incurs Federal and State income taxes on its net income from operations.

G. 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.

H. Fixed Assets

The Organization capitalizes all expenditures in excess of \$1,000 for property and equipment at cost. Capitalized assets are depreciated using the straight-line method over estimated useful lives according to the following schedule.

<u>Asset</u>	<u>Estimated Useful Life</u>
Leasehold improvements	3-20
Buildings	10-30
Vehicles	2-10
Equipment	2-15
Furniture and Fixtures	5
Computers and Software	3-5

I. Comparative Information

Certain balances in the comparative information for the year fiscal ended September 30, 2007 have been reclassified to conform to the presentation used for the year ended September 30, 2008.

J. Inventory

Inventory, which consists of gift cards, is valued at the lower of cost or market. Cost is determined on the first-in, first-out method.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

3. Repurchase Agreement

BCRC has entered into Sweep and Repurchase Agreements with Wells Fargo, under which funds in excess of specified thresholds are invested by Wells Fargo in foreign investments, with all such invested amounts available to BCRC upon demand. Wells Fargo has granted BCRC security interests in the securities underlying the Sweep and Repurchase Agreements, but the underlying securities are not the property of BCRC. Amounts invested under the terms of the Sweep and Repurchase Agreements are not insured by the Federal Deposit Insurance Corporation and are not guaranteed nor governed by the U.S. government or its agencies.

4. Notes Receivable

In 2007, BCRC entered into an agreement with Village Hall Association and the Park Hyatt in which the Village Hall Association and Park Hyatt would contribute \$350,000 towards the construction of a retaining wall at the base mountain area. This contribution will be paid interest free over a five year period. Further, during 2008, the Organization settled a dispute, which resulted in the sum of \$86,529 to be paid to the Organization in eighteen equal monthly installments beginning October 1, 2008 through March 1, 2010. Total amounts to be received in subsequent fiscal years for notes receivable are as follows:

2009	130,037
2010	103,466
2011	<u>50,000</u>
Total	<u><u>273,231</u></u>

5. Property and Equipment

Property and equipment as of September 30, 2008 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction in Progress	325,426	968,580	(1,176,580)	117,426
Artwork	295,470	-	-	295,470
Capital assets, being depreciated:				
Leasehold Improvements	6,028,300	493,885	(5,312)	6,516,873
Buildings	7,069,111	802,668	(11,207)	7,860,572
Vehicles	437,840	-	-	437,840
Equipment	1,924,213	427,797	(159,673)	2,192,337
Furniture & Fixtures	147,763	-	(1,379)	146,384
Computers & Software	44,777	6,860	(6,234)	45,403
Total capital assets being depreciated	<u>16,272,900</u>	<u>2,699,790</u>	<u>(1,360,385)</u>	<u>17,612,305</u>
Less accumulated depreciation	<u>(7,180,191)</u>	<u>(1,216,601)</u>	<u>176,989</u>	<u>(8,219,803)</u>
Total capital assets, net	<u><u>9,092,709</u></u>	<u><u>1,483,189</u></u>	<u><u>(1,183,396)</u></u>	<u><u>9,392,502</u></u>

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

6. Design Review Board (DRB) Deposit Liability

The Design Review Board (“DRB”) reviews construction plans prior to the start of any construction within BCRC’s boundaries in order to maintain a certain community architectural uniformity. The DRB collects a deposit, based on the total value of the construction project, as collateral to ensure the project adheres to the plans the DRB approved. Upon completion of the project, the DRB inspects the project and returns the deposit after its final approval. A fee is charged by the DRB for the review of architectural plans. The fee is based upon the size and type of construction. Interest earned on deposits is retained by the BCRC. At September 30, 2008, BCRC had \$789,801 of DRB deposits outstanding, which is reflected in cash and cash equivalents and the Deposits liability on the statements of financial position.

7. Notes Payable

In March 2004, BCRC entered into a promissory note with Wells Fargo Bank for \$4,000,000 in order to finance a contribution towards the construction of a regional transportation and lift system between the base and summit of Beaver Creek resorts. This note is collateralized by collection of assessments from BCRC members. Principal and interest payments totaling \$44,871 are due monthly, with interest calculated on the unpaid principal balance at an interest rate of 6.140% per year. Final payment is due March 31, 2011. As of September 30, 2008, the outstanding balance on this note was \$659,043.

Total principal amounts due in subsequent fiscal years for notes payable are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u> <u>Due</u>
2009	503,912
2010	155,131
Total	<u>659,043</u>

8. Commitments and Contingencies

BCRC entered into an agreement with Beaver Creek Metropolitan District (BCMD) on January 1, 1999, to assign all of its rights and obligations in connection with providing transportation services within the Beaver Creek subdivision to BCMD. As such, since 1999, a common assessment previously collected by BCRC is now being collected by BCMD. BCRC has agreed to fund BCMD for the total cost of operating the transportation system in excess of amounts collected from the common assessment. For the fiscal year ended September 30, 2008 BCRC paid \$2,264,736 to BCMD for transportation costs in excess of the common assessment.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

9. Related-Party Transactions

A. Vail Resorts

Effective November 1, 1981, BCRC entered into a management agreement with Vail Resorts, whereby Vail Resorts agreed to manage the business and operations of BCRC. The agreement provides for automatic one-year renewals, unless terminated under the terms of the agreement. As compensation for the services performed by Vail Resorts, a fixed management fee, approved in the annual budget of BCRC, is paid. The amount of the management fee can be amended by the board of directors of BCRC based upon changes in the services to be performed by Vail Resorts.

The management fee includes costs for payroll and general administrative expenses allocated to the BCRC. These allocations are based on Vail Resorts' best estimate of the costs of providing the service levels established by the BCRC.

During fiscal year 2008, BCRC received from and paid to Vail Resorts the following amounts:

	<u>Received from</u>	<u>Paid to</u>
Civic assessments	\$ 969,488	-
Lodging civic assessments	118,471	-
Recreation and mountain assessments	4,008,987	-
Marketing	82,500	2,813,309
Public safety	-	2,396,158
Administration	-	1,284,751
Property maintenance	-	1,172,378
Design review board	-	206,616
Activities and events	319,656	900,177
Total	<u>\$ 5,499,102</u>	<u>8,773,389</u>

At September 30, 2008 the Organization had a net receivable from Vail Resorts of \$51,572. For fiscal year 2008, four board members were also employees of Vail Resorts.

B. Vilar Center for the Arts Foundation

In fiscal 1996, BCRC became the sole member of the Vilar Center for the Arts Foundation (the "Arts Foundation"), and currently has the power to appoint the Arts Foundation's directors (See Note 2B). The Arts Foundation is authorized to operate exclusively for charitable and educational purposes.

On June 1, 2001, BCRC entered into a management agreement with the Arts Foundation and Vail Valley Foundation. The agreement transferred BCRC's responsibilities of managing the Arts Foundation to Vail Valley Foundation. The agreement entered requires an annual contribution of at least \$1,000,000 to the Arts Foundation, subject to annual appropriation.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

9. Related-Party Transactions (continued)

B. Vilar Center for the Arts Foundation (continued)

On September 5, 2002, BCRC entered into a contribution agreement with Arts Foundation that amended terms for the annual contribution described in the management agreement dated June 1, 2001. Pursuant to this contribution agreement, BCRC will contribute \$1,000,000 towards general operations annually. This contribution increases annually by the lesser of 4% and the rate of inflation as indicated by CPI Increase after September 30, 2003. In return, the Arts Foundation will provide to BCRC five Eagle Medallions (issued by the Vail Valley Foundation), tickets to Vilar Center events (not to exceed \$40,000 in value, increased annually by the lesser of 4% and the rate of inflation as indicated by CPI Increase), use of the May Gallery four times each calendar year, use of the Vilar Center Theatre four times during the calendar year.

During fiscal year 2008, BCRC received from and paid to the Arts Foundation the following amounts:

	<u>Received from</u>	<u>Paid to</u>
Civic assessments	\$ 10,175	-
Recreation and mountain assessments	91,481	-
Administration	-	40,857
Activities and events	126,337	47,130
Contributions	-	1,397,810
	<u>\$ 227,993</u>	<u>1,485,797</u>

At September 30, 2008 the Organization had a net payable to the Arts Foundation of \$60,547.

10. Performance Based Incentive Plan

The Organization offers a Performance Based Incentive Plan (the Plan) which offers performance rewards of up to 30% of employees' base salaries. The performance rewards are based on the achievement of goals and objectives as defined in the Plan. During fiscal years 2008 and 2007 the Organization expensed \$82,120 and \$71,000, respectively, related to the plan.

11. Defined Contribution Plan

The Organization has established a defined contribution plan for its executive director pursuant to Section 457 of the Internal Revenue Code. The executive director is fully vested in employer contributions. During fiscal years 2008, the BCRC made employer contributions of \$10,000 to the plan.

12. Concentrations of Credit Risk

The Organization's cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per depositor. At September 30, 2008, the Organization's cash in excess of FDIC insurance totaled \$538,307.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2008
(continued)

13. Nonmonetary Transactions

The Organization participates in nonmonetary transactions in which the Organization will receive certain goods or services in exchange for event sponsorships. The value of goods or services received by the Organization is equal to the value of the sponsorships and these transactions are recorded at the fair value of the sponsorships and goods or services involved. For fiscal year 2008, the Organization recognized revenues and expenses of approximately \$598,184 for nonmonetary transactions.