

Beaver Creek Resort Company of Colorado

Financial Report

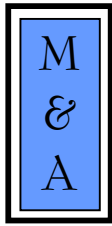
September 30, 2009 and 2008



**Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
September 30, 2009 and 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 statements of financial position of Beaver Creek Resort Company of Colorado, (the "Organization"), a Colorado nonprofit corporation, as of September 30, 2009 and 2008, 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, 2009 and 2008 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.
February 12, 2010**

Member: American Institute of Certified Public Accountants

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Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Statements of Financial Position
September 30, 2009 and 2008
(Basis compliant with Debt covenants)

	<u>2009</u>	<u>2008</u>
Assets:		
Current assets:		
Cash and cash equivalents	560,956	4,892,726
Accounts receivable:		
Real estate transfer assessments	84,170	41,093
Civic assessments	150,318	180,490
Recreation assessments	14,550	50,981
Related parties	68,477	88,632
Other	36,064	63,041
Prepaid expenses	282,283	355,106
Deposits	88,354	87,124
Notes receivable - current	75,000	130,037
Inventory	26,475	26,000
Total Current Assets	<u>1,386,647</u>	<u>5,915,230</u>
Other Assets:		
Notes receivable - long term	46,058	143,194
Total Other Assets	<u>46,058</u>	<u>143,194</u>
Fixed assets:		
Property and equipment, at cost	17,482,137	17,612,305
Accumulated depreciation	(9,105,248)	(8,219,803)
Net Fixed Assets	<u>8,376,889</u>	<u>9,392,502</u>
Total Assets	<u>9,809,594</u>	<u>15,450,926</u>
Liabilities and Net Assets:		
Current liabilities:		
Accounts payable:		
Related parties	865,256	97,607
Other	1,419,649	1,497,676
Accrued payroll and related expenses	-	51,725
Deferred revenue	66,950	500
Deposits		
Related parties	23,741	49,801
Other	324,000	740,000
Line of credit payable	1,270,000	-
Current portion of notes payable	-	503,912
Total Current Liabilities	<u>3,969,596</u>	<u>2,941,221</u>
Non-Current liabilities:		
Notes payable	-	155,131
Total Non-Current Liabilities	<u>-</u>	<u>155,131</u>
Total Liabilities	<u>3,969,596</u>	<u>3,096,352</u>
Net Assets:		
Unrestricted net assets	5,839,998	12,354,574
Total Net Assets	<u>5,839,998</u>	<u>12,354,574</u>
Total Liabilities and Net Assets	<u>9,809,594</u>	<u>15,450,926</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 Years Ended September 30, 2009 and 2008
(Basis compliant with Debt covenants)

	<u>2009</u>	<u>2008</u>
Revenues:		
Assessments:		
Civic assessments	5,347,127	7,160,681
Lodging civic assessments	453,196	633,008
Recreation and mountain assessments	3,868,695	4,393,959
Real estate transfer assessments	2,298,759	5,888,262
Other income:		
Design Review Board fees	60,933	85,727
Business licenses	56,600	53,200
Contribution revenue	-	150,000
Ice rink revenues	260,801	262,395
Investment income	32,316	173,357
Activities and events	1,330,139	1,447,580
Other income	13,170	3,610
	<u>13,721,736</u>	<u>20,251,779</u>
Total Revenues		
Expenses:		
Administration	1,774,020	1,876,777
Activities and events	3,525,199	4,672,821
Professional services	415,781	389,201
Marketing	4,617,374	4,413,725
Transportation	2,718,266	2,282,240
Property maintenance	1,864,250	1,822,070
Public safety	2,243,823	2,318,811
Design review board	190,850	206,994
Memberships and licenses	61,270	67,342
Donations	173,260	378,948
Contingency and taxes	23,694	27,666
Other expense	1,442	73
Interest	53,208	133,801
Depreciation	1,256,837	1,216,601
Contributions	1,317,038	1,397,810
	<u>20,236,312</u>	<u>21,204,880</u>
Total Expenses		
Change in Net Assets	(6,514,576)	(953,101)
Net Assets - Beginning of Year	<u>12,354,574</u>	<u>13,307,675</u>
Net Assets - End of Year	<u><u>5,839,998</u></u>	<u><u>12,354,574</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 Years Ended September 30, 2009 and 2008
(Basis compliant with Debt covenants)

	2009	2008
Cash Flows From Operating Activities:		
Cash received from assessments	12,038,435	18,218,831
Cash received from other sources	1,791,894	1,977,217
Cash received from interest earnings	32,316	201,596
Cash paid for goods and services	(18,519,257)	(18,943,173)
Cash paid for interest	(49,640)	(148,649)
Net Cash Provided (Used) by Operating Activities	(4,706,252)	1,305,822
Cash Flows From Investing Activities:		
Cash received from sale of fixed assets	28,500	-
Cash received from sale of investments	-	2,000,000
Cash paid for fixed assets	(264,975)	(1,523,209)
Net Cash Provided (Used) by Investing Activities	(236,475)	476,791
Cash Flows From Financing Activities:		
Cash received from debt issuance	1,500,000	-
Principal payments on debt	(889,043)	(2,242,850)
Net Cash Provided (Used) by Financing Activities	610,957	(2,242,850)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,331,770)	(460,237)
Cash and Cash Equivalents - Beginning of Year	4,892,726	5,352,963
Cash and Cash Equivalents - End of Year	560,956	4,892,726
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in Net Assets	(6,514,576)	(953,101)
Change in assets and liabilities:		
Depreciation	1,256,837	1,216,601
Loss (gain) on disposal of fixed assets	(4,749)	6,815
(Increase) decrease in accounts receivable	70,658	171,160
(Increase) decrease in prepaid expenses	72,823	140,458
(Increase) decrease in deposits held by others	(1,230)	48,700
(Increase) decrease in notes receivable	152,173	(25,295)
(Increase) decrease in inventory	(475)	(26,000)
Increase (decrease) in accounts payable	689,622	1,079,834
Increase (decrease) in accrued payroll	(51,725)	10,725
Increase (decrease) in gift certificates	-	(3,593)
Increase (decrease) in deferred revenue	66,450	500
Increase (decrease) in deposit liability	(442,060)	(164,059)
Increase (decrease) in retainage payable	-	(196,923)
Total change in assets and liabilities	1,808,324	2,258,923
Net Cash Provided (Used) by Operating Activities	(4,706,252)	1,305,822

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, 2009 and 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. These 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, 2009 and 2008
(continued)

2. Summary of Significant Accounting Policies (continued)

A. Basis of Accounting (continued)

At September 30, 2009 and 2008, the Arts Foundation reported in its separately audited financial statements the following:

	<u>2009</u>	<u>2008</u>
Total assets	\$ 16,746,547	17,163,796
Total liabilities	306,677	246,680
Total net assets	16,439,870	16,917,116
Total revenues	4,297,448	4,333,067
Total expenses	4,774,694	4,755,370

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. Allowance for Uncollectible Accounts

The Organization uses the allowance method for recognizing the future potential uncollectibility of accounts receivable. No allowance for bad debts was recorded at September 30, 2009 since all such amounts were considered collectible. An allowance for uncollectible accounts of \$86,529 was established at September 30, 2008.

D. 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.
- (4) Common Assessment:** An annual assessment may be levied based on the assessed valuation of all real property of each owner's site multiplied by the common assessment rate determined by the Board annually. No common assessments were levied for fiscal years ended September 30, 2009 and 2008.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2009 and 2008
(continued)

2. Summary of Significant Accounting Policies (continued)

D. Assessments (continued)

(5) 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.

E. 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.

F. 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.

G. 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	3-30
Vehicles	5-7
Equipment	3-7
Furniture and fixtures	5
Computers and software	3-5

H. Comparative Information

Certain balances in the comparative information for the year fiscal ended September 30, 2008 have been reclassified to conform to the presentation used for the year ended September 30, 2009.

I. 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, 2009 and 2008
(continued)

3. 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.

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. This receivable was written off during the fiscal year ended September 30, 2009.

Total amounts to be received in subsequent fiscal years for notes receivable are as follows:

2010	\$ 75,000
2011	<u>50,000</u>
Total	<u>125,000</u>
Discount	<u>(3,942)</u>
Net Receivable	<u>\$ 121,058</u>

4. Fixed Assets

Fixed asset activity during the past fiscal year was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 117,426	76,503	(65,000)	128,929
Artwork	295,470	-	-	295,470
Capital assets, being depreciated:				
Leasehold Improvements	6,516,873	32,061	-	6,548,934
Buildings	7,860,572	48,874	-	7,909,446
Vehicles	437,840	103,935	(124,838)	416,937
Equipment	2,192,337	67,276	(264,391)	1,995,222
Furniture and fixtures	146,384	-	-	146,384
Computers and software	45,403	1,326	(5,914)	40,815
Total capital assets being depreciated	17,612,305	329,975	(460,143)	17,482,137
Less accumulated depreciation	(8,219,803)	(1,256,837)	371,392	(9,105,248)
Total capital assets, net	\$ 9,392,502	(926,862)	(88,751)	8,376,889

5. 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, 2009 and 2008, BCRC had \$347,741 and \$789,801, respectively, of DRB deposits outstanding, which is reflected in cash and cash equivalents and the Deposits liability on the Statements of Financial Position.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2009 and 2008
(continued)

6. 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 was collateralized by collection of assessments from BCRC members. Principal and interest payments totaling \$44,871 were due monthly, with interest calculated on the unpaid principal balance at an interest rate of 6.14% per year. This note had a balance of \$659,043 at September 30, 2008 and was repaid in full as of September 30, 2009.

7. Line of Credit

In May 2009, BCRC entered into a promissory note with Alpine Bank for a line of credit not to exceed \$2,000,000. The outstanding principal accrues interest at a variable rate of 1.25% above the JP Morgan Chase Bank prime rate index, limited to a rate per annum between 5.5% and 24%. This note is secured by collection of assessments from BCRC members. Principal and interest are due in full on May 7, 2010. At September 30, 2009, the outstanding principal was \$1,270,000.

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, 2009 and 2008, BCRC paid \$2,712,266 and \$2,264,736, respectively, to BCMD for transportation costs in excess of the common assessment.

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.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2009 and 2008
(continued)

9. Related-Party Transactions (continued)

A. Vail Resorts (continued)

During fiscal year 2009, BCRC received from and paid to Vail Resorts the following amounts:

	<u>Received from</u>	<u>Paid to</u>
Civic assessments	\$ 713,807	-
Lodging civic assessments	86,942	-
Recreation and mountain assessments	3,609,737	-
Marketing	-	2,885,311
Public safety	-	2,491,025
Administration	-	1,234,365
Property maintenance	-	1,234,181
Design review board	300	189,072
Activities and events	305,081	864,136
Total	<u>\$ 4,715,867</u>	<u>8,898,090</u>

At September 30, 2009 the Organization had a net payable to Vail Resorts of \$770,735. For fiscal year 2009, 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 2A). 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.

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, subject to annual appropriation, towards general operations annually. If appropriated, 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.

Beaver Creek Resort Company of Colorado
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
September 30, 2009 and 2008
(continued)

9. Related-Party Transactions (continued)

B. Vilar Center for the Arts Foundation (continued)

During fiscal year 2009, BCRC received from and paid to the Arts Foundation the following amounts:

	<u>Received from</u>	<u>Paid to</u>
Civic assessments	\$ 46,133	-
Recreation and mountain assessments	42,839	-
Administration	-	41,039
Activities and events	43,201	86,931
Contributions	-	1,249,187
	<u>\$ 132,173</u>	<u>1,377,157</u>

At September 30, 2009 the Organization had a net payable to the Arts Foundation of \$49,785.

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 2009 and 2008 the Organization expensed \$0 and \$82,120, 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 2009 and 2008, the BCRC made annual 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, 2009 and 2008, the Organization's cash in excess of FDIC insurance totaled \$262,957 and \$538,307, respectively.

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 years 2009 and 2008, the Organization recognized revenues and expenses of approximately \$459,003 and \$598,184, respectively, for nonmonetary transactions.