

LATHROP FINANCIAL SERVICES

To the Board of Directors and Members
Knudson Ranch Association, Inc. dba Bachelor Springs:

I have audited the Balance Sheets of Knudson Ranch Association, Inc. dba Bachelor Springs as of December 31, 2007 and 2006 and the related Statements of Revenue and Expenses and Change in Fund Balances and Cash Flows for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Association's management; my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit of these statements in accordance with generally accepted auditing standards, which require that I 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. I believe that my audit provided a reasonable basis for the opinion expressed below.

In my opinion, the Balance Sheet of Knudson Ranch Association, Inc. dba Bachelor Springs and the related Statement of Revenue and Expenses and Change in Fund Balance as of December 31, 2007 and 2006 present fairly, in all material respects, the financial position of Knudson Ranch Association, Inc. at December 31, 2007 and 2006, and the results of its operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

The information presented in the Schedule of Operating Fund Revenues and Expenses – Actual and Budget on page 7 is presented only for supplementary analysis purposes. The budget information was compiled without audit or review from information that is the representation of management and thus I do not express an opinion or any other form of assurance on the budget information.

The supplementary information about future repairs and replacements on Page 8 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have compiled the supplementary information from information that is the representation of management of the Knudson Ranch Association, Inc. without audit or review. Accordingly, I do not express an opinion or any other form of assurance on the supplementary information.

Lathrop Financial Services LLC
Edwards, Colorado
June 6, 2008

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Knudson Ranch Homewoners' Association
 dba Bachelor Springs
 Balance Sheets
 December 31, 2007 and 2006

	December 31, 2007			Total 12/31/06
	Operating Fund	Replacement Fund	Total 12/31/07	
ASSETS				
Current Assets				
Cash and Cash Equivalents				
Operating Account	\$ 1,228		\$ 1,228	\$ 9,189
Working Capital Account			-	-
Money Market Account		\$ 50,621	50,621	72,630
Reserve CD		100,646	100,646	96,115
Assessments Receivable			-	5,064
Other Receivables			-	-
Deposits			-	-
Prepaid Expenses	4,495		4,495	5,729
Due from Reserve Fund	2,647	-	2,647	2,323
Total Current Assets	8,370	151,267	159,637	191,050
Total Assets	\$ 8,370	\$ 151,267	\$ 159,637	\$ 191,050
LIABILITIES AND CAPITAL				
Current Liabilities				
Accounts Payable	\$ 6,947		\$ 6,947	\$ 7,952
Income Taxes Payable	1,373		1,373	792
Prepaid Dues	50		50	8,915
Due to Operating Fund		\$ 2,647	2,647	2,323
Total Current Liabilities	8,370	2,647	11,017	19,982
Long-Term Liabilities				
Painting Reserves		20,358	20,358	20,358
Roof Reserve			-	-
Decks, Stairs and Rails		51,819	51,819	51,819
Gate Reserves		13,042	13,042	13,042
Paving Reserves		5,011	5,011	5,011
Stucco Reserve		4,151	4,151	4,151
General Maintenance Reserve		25,979	25,979	48,426
Total Long-Term Liabilities	-	120,360	120,360	142,808
Total Liabilities	8,370	123,007	131,378	162,790
Capital				
Working Capital Deposits		28,260	28,260	28,260
Net Surplus (Deficit)	-	0	0	0
Total Capital	-	28,260	28,260	28,260
Total Liabilities & Capital	\$ 8,370	\$ 151,267	\$ 159,638	\$ 191,050

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

Knudson Ranch Homeowners' Association
 dba Bachelor Springs
 Statements of Operations and Changes in Working Capital Fund
 Years Ended December 31, 2007 and 2006

	December 31, 2007			Total 12/31/06
	Operating Fund	Replacement Fund	Total 12/31/07	
Revenues				
Common Assessments-Operating	\$ 127,869		\$ 127,869	\$ 107,857
Common Assessments-Reserve		\$ 52,789	52,789	49,800
Landscape Improvement Assessment		-	-	23,000
Late Fee Income	630		630	670
Interest & Dividend Income		8,406	8,406	6,130
Total Revenues	128,499	61,195	189,694	187,457
Reserve Allocation	4,691	(4,691)	-	-
Gross Operating Profit	123,808	65,886	189,694	187,457
Expenses				
Management & Accounting	14,220		14,220	12,100
Tax Preparation & Audit	1,568		1,568	1,200
Legal	2,135		2,135	3,761
Insurance	22,882		22,882	20,787
Meetings	597		597	642
Office	71		71	607
Website	998		998	1,175
Common Telephone-Gate	399		399	435
Common Electric-Gate	1,096		1,096	1,039
Common Water-Irrigation	4,882		4,882	2,967
Landscape Maintenance	25,929		25,929	22,511
Irrigation Maintenance	4,314		4,314	2,183
Snow Removal	11,822		11,822	11,358
Window Washing	2,225		2,225	1,940
Gate Repair & Maintenance	884		884	1,417
General Repair & Maintenance	24,325		24,325	10,967
Holiday Decorations	1,779		1,779	1,729
Income Tax Expense	1,894		1,894	792
Landscape Improvements	1,788		1,788	4,740
Capital Reserve Charges			-	3,770
Capital Reserve Accrual		65,886	65,886	81,336
Total Expenses	123,807	65,886	189,693	187,457
Net Operating Surplus (Deficit)	0	(0)	0	0
Working Capital Fund				
Beginning Fund Balance	-	28,260	28,260	27,692
Working Capital Deposits			-	568
Ending Working Capital Fund	\$ 0	\$ 28,260	\$ 28,260	\$ 28,260

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

Association
dba Bachelor Springs
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	December 31, 2007			Total 12/31/06
	Operating Fund	Replacement Fund	Total 12/31/07	
Operating Activities				
Net Operating Surplus (Deficit)	\$ -	\$ -	\$ -	\$ -
Cash Flow Changes In Other			-	
Assets/Liabilites:			-	
Assessments Receivables	5,064		5,064	(4,964)
Prepays, Deposits, and Other	1,234		1,234	2,958
Accounts Payable	(1,005)		(1,005)	6,023
Accrued Liabilities			-	(1,060)
Income Taxes Payable	581		581	470
Prepaid Assessments	(8,865)		(8,865)	8,915
Due To Operating Fund from Reserve Fund	(4,970)	4,970	-	-
Net Cash Provided (Used) by Operating Activities	<u>(7,961)</u>	<u>4,970</u>	<u>(2,991)</u>	<u>12,342</u>
Investing Activities				
Changes in Reserve Accounts		(22,448)	(22,448)	17,708
Net Cash Used in Investing Activities	<u>-</u>	<u>(22,448)</u>	<u>(22,448)</u>	<u>17,708</u>
Financing Activities				
Working Capital Deposits	-		-	567
Net Cash Provided by Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>567</u>
Net Increase (Decrease) in Cash	(7,961)	(17,478)	(25,439)	30,618
Cash at Beginning of Year	<u>9,189</u>	<u>168,745</u>	<u>177,934</u>	<u>147,316</u>
Cash at End of Year	<u><u>1,228</u></u>	<u><u>151,267</u></u>	<u><u>152,495</u></u>	<u><u>177,934</u></u>

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

KNUDSON RANCH ASSOCIATION, INC. DBA BACHELOR SPRINGS
NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION

Knudson Ranch Association, Inc., doing business as Bachelor Springs, (“the Association”) was incorporated on October 22, 1997, in the state of Colorado. The Association is responsible for the operation and maintenance of the common property within the Knudson Ranch development (“the development”). The development consists of 26 residential units located in Eagle County, Colorado.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association’s Declaration Document, its governing document, provides 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. It is funded from member assessments

Replacement Fund- This fund is used to accumulate financial resources designated for future major repairs and replacements of the common property components. It is funded from member assessments and excess operating funds as well as amounts collected from owners at closing of their units.

Working Capital Account

Owners are required to pay an amount equal to one quarter’s current dues to the Association’s Working Capital account at the closing of their purchase. When a property ownership is transferred, the purchasing owner must pay the current amount and the selling owner receives back the funds previously paid. These funds are segregated from the operating funds and are invested in certificates of deposits and a money market account. These funds are combined with the Capital Reserve funds (see Note C). The total balance on hand at December 31, 2007 and 2006 of segregated funds was \$151,267 and \$168,745 respectively. At December 31, 2007 and 2006 \$28,260 of that total was identified as the Working Capital reserve balance.

Member Assessments

Association members are subject to an annual assessment, billed in quarterly installments, to provide funds for the Association’s operating expenses, future capital acquisitions, and major repairs and replacements. The annual assessment is levied in accordance with the annual budget in proportion to each owner’s Sharing Ratio, as defined in the Declaration document. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association assesses finance charges on delinquent assessments. Excess assessments at year-end are retained by the association for use in the succeeding year or added to the capital replacement fund.

KNUDSON RANCH ASSOCIATION, INC. DBA BACHELOR SPRINGS
NOTES TO FINANCIAL STATEMENTS

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources. Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. The Association elected to be taxed as a regular corporation for 2006 and 2007 to take advantage of lower income tax rates available under that filing option.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the 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.

NOTE C – NOTE C- FUTURE MAJOR CLAIMS AND REPLACEMENTS

The Association's Declaration document requires funds to be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for operating purposes. These segregated funds aggregated \$151,267 and \$168,745 at December 31, 2007 and 2006 respectively, which included \$28,260 of segregated Working Capital funds each year as noted in Note B. The Association has prepared a study to estimate the remaining useful lives and the replacement costs of the common property components. Estimates from that study are included as supplementary information to these financial statements on page 7.

Knudson Ranch Homeowners' Association
 dba Bachelor Springs
 Comparison of Actual Results to Budget
 Years Ended December 31, 2007
 (Unaudited)

	Actual	Budget	Variance
			Favorable (Unfavorable)
Revenues			
Common Assessments-Operating	\$ 127,869	\$ 127,869	\$ 0
Common Assessments-Reserve	52,789	52,788	1
Late Fee Income	630		630
Interest & Dividend Income	8,406		8,406
Total Revenues	<u>189,694</u>	<u>180,657</u>	<u>9,037</u>
Expenses			
Management & Accounting	14,220	14,220	-
Tax Preparation & Audit	1,568	1,350	(218)
Legal	2,135	2,000	(135)
Insurance	22,882	23,500	618
Insurance Deductible		2,500	2,500
Meetings	597	700	103
Office	71	125	54
Website	998	1,000	2
Common Telephone-Gate	399	457	59
Common Electric-Gate	1,096	1,030	(66)
Common Water-Irrigation	4,882	6,500	1,618
Landscape Maintenance	25,929	25,500	(429)
Irrigation Maintenance	4,314	3,300	(1,014)
Snow Removal	11,822	11,500	(322)
Window Washing	2,225	2,000	(225)
Gate Repair & Maintenance	884	900	16
General Repair & Maintenance	24,325	23,787	(538)
Holiday Decorations	1,779	1,500	(279)
Income Tax Expense	1,894	2,000	106
Landscape Improvements	1,788	4,000	2,212
Capital Reserve Charges	61,195	52,788	(8,407)
Total Expenses	<u>185,002</u>	<u>180,657</u>	<u>(4,346)</u>
Operating Surplus transferred to Reserve	<u><u>\$ 4,691</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,691</u></u>

Knudson Ranch Homwowners' Association
 dba Bachelor Springs
 Reserve Study Projections
 December 31, 2006
 (Unaudited)

Item	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Future Projected Expenditures:							
Grading and Drainage				\$ 1,897			
Paving and Curbing					\$ 20,301		
Water Feature	\$ 1,124						
Stand Alone Lighting Units	3,374						
Stucco		\$ 58,623					
Wood Siding, Trim and Doors		64,793			72,882		
Balconies & Stairways	20,248			22,776			\$ 25,620
Lighting Units							
Wood Shake Shingles						\$ 270,977	74,012
Gutter, Downspouts, Extensions							
Chimney Caps							
Total Yearly Expenditures	<u>\$24,746</u>	<u>\$123,416</u>	<u>\$0</u>	<u>\$24,673</u>	<u>\$93,183</u>	<u>\$270,977</u>	<u>\$99,632</u>
Annual Cash Balance Projection:							
Beginning Reserves Cash Balance	\$123,007	\$156,487	\$95,512	\$167,552	\$224,856	\$222,466	\$46,122
Funding (annually increased by 12%)	52,788	59,123	66,217	74,163	83,063	93,030	\$104,194
Interest Income @ 3.6%	5,438	3,319	5,822	7,814	7,730	1,603	1,825
Expenditures	24,746	123,416	-	24,673	93,183	270,977	\$99,632
Ending Cash Balance	<u>\$156,487</u>	<u>\$95,512</u>	<u>\$167,552</u>	<u>\$224,856</u>	<u>\$222,466</u>	<u>\$46,122</u>	<u>\$52,509</u>