

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)

Financial Statements and
Supplementary Information
December 31, 2017 and 2016

DRAFT

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
December 31, 2017 and 2016

Table of Contents

	<u>Page</u>
Independent Accountant's Review Report	1
Statements of Assets and Liabilities - Income Tax Basis	2
Statements of Revenues and Expenses - Income Tax Basis	3
Statements of Retained Earnings - Income Tax Basis	4
Notes to the Financial Statements	5 - 10
Supplementary Information on Future Major Repairs and Replacements	11-12



NOVOSAD ♦ LYLE

♦ ASSOCIATES, P.C. ♦

Exceeding your accounting needs

Certified Public Accountants

*Stephanie Novosad, C.P.A.
Kelly E. Lyle, C.P.A.*

Board of Directors
Homestead Owners Association, Inc.
Edwards, Colorado

Avon Center
245 Chapel Place, Suite 200
P.O. Box 5910
Avon, Colorado 81620

phone 970.845.8000
fax 970.845.8108

nla-cpas@vail.net
www.NovosadLyleCPA.com

Independent Accountant's Review Report

We have reviewed the accompanying statements of assets and liabilities - income tax basis of Homestead Owners Association, Inc. (a Colorado non-profit corporation) as of December 31, 2017 and 2016, and the related statements of revenues and expenses - income tax basis and retained earnings - income tax basis for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with other basis of accounting the company uses for income tax purposes; this includes determining that the basis of accounting the company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to in accordance with the basis of accounting the company uses for income tax purposes. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the company uses for income tax purposes.

We draw attention to Note 3 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to the matter.

The supplementary information about future major repairs and replacements of common property on Pages 11 - 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

NOVOSAD, LYLE & ASSOCIATES, P.C.
February 15, 2018

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Assets and Liabilities - Income Tax Basis
December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash - checking	561,589	411,334
Savings-reserve and capital funds	1,268,625	1,256,707
Cash - petty cash and cash box	500	500
Escrow - performance deposits	7,500	-
Accounts receivable - members	94,550	117,224
Interest receivable	705	1,510
Inventories, at cost	9,433	8,725
Holding account-deposits	67,330	59,661
Prepaid expenses	15,804	14,708
Total Current Assets	<u>2,026,036</u>	<u>1,870,369</u>
Property and Equipment:		
Land - Park DeClark	80,000	80,000
Condominium	159,118	159,118
Furniture, fixtures and equipment	275,970	275,970
Accumulated depreciation	(416,310)	(416,310)
Total Property and Equipment	<u>98,778</u>	<u>98,778</u>
Other Assets:		
Loan Fees	9,766	9,766
Accumulated amortization	(2,107)	(1,487)
Working capital - Unit 10	399	399
Total Other Assets	<u>8,058</u>	<u>8,678</u>
Total Assets	<u>2,132,872</u>	<u>1,977,825</u>
Liabilities and Retained Earnings		
Current Liabilities:		
Trade accounts payable	30,011	15,458
Escrow deposit payable	7,500	-
Payroll taxes payable	-	176
Prebilled dues	115,334	110,761
Accrued payroll taxes	1,002	1,023
Accrued property taxes	16,243	16,451
Accrued wages	10,990	11,361
Deferred revenue	32,124	31,507
Total Current Liabilities	<u>213,204</u>	<u>186,737</u>
Other Liabilities:		
Rental deposit	2,125	2,125
Member deposits	2,900	3,350
Total Other Liabilities	<u>5,025</u>	<u>5,475</u>
Long-Term Debt:		
Note payable-ANB bank	916,194	1,000,000
Total Long-Term Debt	<u>916,194</u>	<u>1,000,000</u>
Total Liabilities	<u>1,134,423</u>	<u>1,192,212</u>
Retained Earnings:		
Designated for replacement reserve	998,449	785,613
Designated for capital reserve	-	-
Total Retained Earnings (Page 4)	<u>998,449</u>	<u>785,613</u>
Total Liabilities and Retained Earnings	<u>2,132,872</u>	<u>1,977,825</u>

See accompanying notes and independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Revenues and Expenses - Income Tax Basis
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Owner dues	1,075,740	1,064,151
Other revenue	846,396	743,303
Total Revenues	<u>1,922,136</u>	<u>1,807,454</u>
Expenses:		
Activity cost of revenues	66,580	76,150
Bad debts	447	153
Bank charges	5,420	5,115
Building and ground maintenance	34,092	35,629
Cable television	6,143	9,570
Cleaning and cleaning supplies	19,590	20,520
Copier lease	7,618	7,292
Design review fees	2,802	1,894
Education	6,282	5,042
Electricity	37,009	39,836
Employee expenses	12,357	10,979
Homestead CCTH dues	4,656	4,524
Insurance	94,280	85,722
Landscaping maintenance	17,039	17,461
Legal and accounting	56,366	51,000
Linens	3,398	3,860
Locker room amenities	4,389	3,250
Maintenance supplies and equipment	13,898	10,701
Meeting expense	2,082	2,162
Member communications	3,137	3,103
Natural gas	24,069	22,383
Office supplies	24,256	20,931
Payroll taxes	64,716	60,676
Pool chemicals	4,999	3,334
Pool maintenance	10,077	8,997
Postage	4,327	5,630
Real estate taxes	16,242	16,453
Salaries and wages	807,722	759,522
Snow removal repairs	1,704	2,734
Special events	42,067	47,234
Telephone	4,163	4,111
Tennis court maintenance	7,926	6,550
Trash removal	4,991	4,111
Truck expense	4,987	4,604
Water and sewer	39,304	34,118
Total Expenses	<u>1,459,135</u>	<u>1,395,351</u>
Income from Operations	<u>463,001</u>	<u>412,103</u>
Other (Expense) Income:		
Amortization	(620)	(595)
Interest income	17,898	19,805
Rental income	69,286	60,249
Other expense	(6,097)	(6,695)
Total Other (Expense) Income	<u>80,467</u>	<u>72,764</u>
Net Income Before Transfers to Replacement and Capital Reserves	543,468	484,867
Transfers to Replacement and Capital Reserves	<u>(543,468)</u>	<u>(484,867)</u>
Net Income	<u>-</u>	<u>-</u>

See accompanying notes and independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Retained Earnings - Income Tax Basis
December 31, 2017 and 2016

	2017	2016
Retained Earnings:		
Designated for replacement and capital reserves, January 1	785,613	729,374
Transfers to replacement and capital reserves	543,468	484,867
Replacement and capital reserve expenditures	(330,632)	(428,628)
Designated for Replacement and Capital Reserves, December 31	998,449	785,613
Total Retained Earnings (Page 2)	998,449	785,613

DRAFT

See accompanying notes and independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016

1. Organization

The Homestead Owners Association, Inc. was incorporated on July 14, 1982, under the Colorado Non-Profit Corporation Act. The Association began operations in 1983 in Edwards, CO and the Clubhouse opened September 2, 1985. The purpose of the Association is to provide for maintenance, preservation and architectural control of the sold residential lots and common area/open space within the Homestead development which consists of 850 acres. Every person or entity that is a record owner of a fee or undivided fee interest in any vacant lot and/or dwelling unit within the Homestead development is required to be a member of the Association. Currently there are 827 homeowners. The Association also operates a Clubhouse, which includes a swimming pool, tennis courts, locker rooms, etc. The Association also rents space within the Clubhouse to a Montessori school.

2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 15, 2018, the date the financial statements were available to be issued.

3. Summary of Significant Accounting Principles

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Nonmembers pay monthly dues which subsidize these expenses. The common expenses of the Association are paid by the Association for the members of the Association. The Board of Directors estimates the annual expenditures and assesses the Association's members for their pro rata share of the estimated expenses. The Association also collects moneys for Clubhouse use by non-owning members. Any excess of assessments billed to the members for the estimated expenses and nonmember revenue over actual expenses is due to the members in their pro rata share. The members of the Association are responsible for payment of the actual expenses in excess of the member assessments and non-member user fee revenue.

Method of Accounting

The Association records transactions in the financial statements on the income tax basis of accounting; consequently, the Association recognizes no allowance for bad debts and depreciation is calculated using tax basis methods.

Inventories

The Association maintains inventories of retail sporting goods, apparel, and food and beverages. All inventories are valued at cost, using the first-in, first-out method.

Income Taxes

The Association has filed for and obtained non-profit corporate status from the State of Colorado. For Federal and state income tax purposes, the Association is not tax exempt and, therefore, must file Federal and state income tax returns as a corporation for profit.

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016
(Continued)

No provision is made for income taxes as any excess of owner function income over owner function expenses is refunded to each owner or applied against subsequent periods' assessments, as voted on by the owners.

The Association is liable for income taxes when nonmember income exceeds nonmember expenses. Non-member activity occurs with nonmember use of the Clubhouse.

As of December 31, 2017 the tax years that remain subject to examination by taxing authorities begin with 2014.

Use of Estimates Annually

The preparation of financial statements on the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recognition of Assets and Depreciation Policy

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements. This common property consists of a clubhouse, sidewalks, driveways, drainage and utility easements, recreational field, tennis courts, jogging tracks and open space lots. A value has not been determined for this common property and the common property is not recorded as assets of the Association in the financial statements.

Common personal and real property acquired by the Association is recognized on the Association's financial statements as capitalized fixed assets and recorded at cost. Common real property acquired before 1987 is depreciated under the Accelerated Cost Recovery System of the Internal Revenue Code over 19 year lives. Common personal property acquired before 1987 is also depreciated using the Accelerated Cost Recovery System over five year lives. Common personal property acquired after 1986 is depreciated under the Modified Accelerated Cost Recovery System rules over seven year lives. Some assets that qualify for Section 179 expense deductions were expensed for financial statement reporting. It has been determined that the expense deductions are not material for reporting purposes.

Interest Income

Interest income is being allocated to the capital reserve. Interest income allocated to the capital reserve was \$17,898 and 19,805 respectively, for the years ended December 31, 2017 and 2016.

4. Inventories

	2017	2016
Retail sporting goods and apparel	7,244	6,284
Food and beverage	663	478
Stringing	1,527	1,963
Total	9,433	8,725

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016
(Continued)

5. Long-Term Replacement Funding Program

The Board of Directors has adopted a funding program for future capital expenditures in the form of reserve and capital contribution assessments. The Association has a replacement reserve of \$998,449 and \$785,613 for the years ended December 31, 2017 and 2016, respectively. The Association also has a capital reserve of \$0 for each year ended December 31, 2017 and 2016, respectively. The annual capital contribution assessments to the replacement reserve were \$472,701 and \$333,217 for the years ended December 31, 2017 and 2016, respectively. The annual capital contribution assessments to the capital reserve were \$52,869 and \$131,845, for the years ended December 31, 2017 and 2016, respectively. A formal study to estimate the remaining useful lives and the replacement costs of the components of the common property was conducted by Borne Engineering in 2016. The estimates were based on future estimated replacement cost.

6. Nonmember Deposits

The Association collects deposits from nonmembers of the Association who wish to participate in the activities of the Clubhouse. Prior to August 1, 2003, \$250 was collected from each nonmember; the money is retained to cover unpaid fees when a nonmember ends participation in Clubhouse activities. Unapplied deposits are returned to nonmembers who depart as of September 1. At December 31, 2017 and 2016, the deposits totaled \$2,900 and \$3,350 respectively. After July 31, 2003, nonmembers are charged a non-refundable Admin\Set up Fee of \$250. For the years ended December 31, 2017 and 2016, the Association collected and reported as income a total of \$13,150 and \$12,725, respectively, in Admin/Set up Fees.

7. Savings Accounts and Certificate of Deposit

The Association invests its replacement and capital reserves into money market account at ANB Bank (Edwards Branch) and ANB Advisory Services (Minnesota). Starting in 2012 the Association maintained all other investments in certificates of deposit through Multi-Bank Securities, Inc. to ensure all investments were fully insured. This company acts as the custodian of the certificates of deposit which are held at other banks. At December 31, 2017 the \$1,268,625 of combined investments at ANB Bank and Multi-Bank Securities, Inc. had no withdrawal restrictions, with the exception of lost accrued interest, and was earning interest at an average rate of 1.39% in all money market and certificate of deposit accounts. All interest earned is being allocated to the capital reserve per board approval.

8. Management Contract

The Association has entered into a written contract with Tracy Erickson to manage the Association and Clubhouse. This contract has been extended to December 31, 2018. Erickson is paid a salary and also given other employee benefits in exchange for his management responsibilities.

9. Concentrations of Credit Risk

The Association maintains its cash balances in two financial institutions located in Edwards, Colorado. The Association also had 11 certificates of deposit at different financial institutions as described in Note 6 above, of which 2 matured during 2017. The Federal Deposit Insurance Corporation insures the balances, up to \$250,000 in 2017 and 2016 for interest and non-interest bearing accounts. As of December 31, 2017 there was \$215,580 in uninsured funds which were in non-interest-bearing accounts.

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016
(Continued)

10. Rental Income

The Association has a lease on the day-care center within the Clubhouse to Gore Range Montessori-Edwards, LLC. The lease started on July 1, 2011 for a term of five years ending on June 30, 2016. They have one more 5 year option. At the October 14, 2016 board meeting, the board approved the extension for the additional 5 year term starting June 2016.

The Association has an employee who rents a studio apartment on the property on an annual basis for \$500 per month.

Starting in May 2015 the Association's condominium was rented to an employee at a discounted rent in exchange for services to the Association.

Starting in June of 2009 AT&T started paying the Association \$1,000 a month to place a cell tower on the property. There was a 5 year contract with AT&T which ended in June 2014. The initial contract included 3 5 year options at a 10% increase for each option period. The current monthly rent to the Association is paid by Crown Castle (still AT&T) \$2,200 a month.

11. Non-Monetary Transactions

One employee of the Association is given free housing in exchange for services rendered to the Association. The value of these arrangements cannot be determined.

The employee apartments are exchanged for security and 15 to 30 hours of work per week.

12. Other Revenue

	2017	2016
Forfeited deposits	450	100
Member dues	289,353	239,488
Design review fees	3,487	3,568
Guest fees	26,804	20,097
Statement prep fees	3,100	2,800
Lockers	1,008	926
Finance charges and late fees	12,940	12,569
Personal training	137,131	114,334
Personal trainer contractor fee	7,800	7,800
Pro Shop sales	24,237	24,773
Swimming	16,719	12,669
Aerobics	40	759
Racquet sports	226,893	220,069
Kid's Camp	80,471	65,480
Baby-sitting - Kid's Camp	2,812	5,146
Admin/Set up fee	13,150	12,725
 Total	 846,396	 743,303

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016
(Continued)

13. Replacement Reserve

The Board of Directors has adopted a funding program for future capital expenditures. In 2017 and 2016 the annual reserve and capital contribution assessments were \$523,519 and \$465,062, respectively. The resulting balances are as follows:

	2017	2016
Beginning balance	785,613	729,374
Reserve and Capital contribution assessments	525,570	465,062
Allocation of interest income	17,898	19,805
Reserve/Capital and interest allocation expenditures	(330,632)	(428,628)
Ending Balance	998,449	785,613

14. Performance Deposit Escrow

For new construction, a \$7,500 deposit for each separate dwelling unit is required and will be refunded upon completion of plans as presented and approved by the Homestead Owners' Design Review Committee. The board will also collect deposits for other small construction or improvement projects, but the performance deposit collected varies depending on the size of the project. At December 31, 2017 and 2016, the deposits totaled \$7,500 and 0, respectively.

15. Investment in Option (Land – Park DeClark)

The Association entered into an agreement with the Edwards Metropolitan District on April 26, 2000 to assist the District in purchasing real estate from Richard and Janet DeClark, further known as "Park DeClark". The Association arranged for the Save the Park Fund to donate \$12,000 to the District and the Association provided the District with an additional \$80,000. The Association paid the District \$30,000 in December of 2000 and by December 31, 2001, the Association gave the District an additional \$50,000. In light of the foregoing, the District will lease the park to the Association for \$1 per year and grant the Association the right and option to purchase the property for \$26,000 plus an appreciation amount calculated by multiplying \$26,000 times 6% per year for each year or part thereof the District has owned the property, plus the cost of any capital improvements made to the property by the District. The term of the lease and the option to purchase is 99 years.

16. Promissory Note-Club Remodel

During 2014 the Association began remodeling the main clubhouse. On July 8, 2014 the Association obtained a promissory note for the project, up to the amount of \$1,500,000. The original loan bore interest at an annual fixed rate of 4.0% for the first phase up through July 15, 2015. The annual rate then changed to 4.95% during the second phase. The original note had a maturity date of July 15, 2030. The note was collateralized by the Association's future assessments and any other revenues or funds now and hereafter payable to the Association. On December 21, 2016 the note was modified, with a principal amount of \$1,000,000 and bears interest at an annual fixed rate of 3.75%. The modified note matures December 21, 2026. The outstanding principal balance at December 31, 2017 was \$916,194. The modified note requires the borrower to maintain \$500,000 on deposit with ANB Bank. Total expenditures for the remodel in 2014 and 2015 were \$2,677,624. The Replacement and Capital Reserve accumulated funds in the amount of \$1,297,985 and the loan proceeds of \$1,379,639 were used to pay for these remodel expenditures in 2014 and 2015. There was no expenditure for the remodel in 2017.

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017 and 2016
(Continued)

There were loan fees of \$9,766 paid in conjunction with this promissory note, which includes \$250 for the loan modification. These fees have been capitalized and are being amortized over the life of the loan. The amortization expense for 2017 is \$620.

During 2017 the Association made loan principal payments in the amount of \$83,806.

DRAFT

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Supplementary Information on Future Repairs and Maintenance
December 31, 2017

A formal study was conducted by Borne Engineering in 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs.

The following information is based on the study and presents significant information about the components of common property:

Project	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Site drainage	2	10,000
Asphalt parking area	1-4	93,240
Asphalt walkways around the Court Club	1-10	29,400
Concrete Pool Deck	30	31,250
Timber retaining walls	0	9,840
Community lighting	1-4	24,000
Timber stairways	0	7,124
Playground equipment	9	150,000
Eco paths	0	3,725
Entrance monuments	18	6,000
Community signage	1-5	16,200
Community wood decking	0-8	19,800
Community benches and tables	5	13,650
Siding and trim	1	18,000
Windows and doors	0-37	151,200
Roofing	5-17	572,950
Metal roofing	33	72,000
School lease space	4	35,000
Indoor tennis courts	0-6	52,320
Daycare area	5	5,000
Pool area	0-7	17,000
Court club front entrance	0	5,000
Court club exterior deck	0-11	80,750
Interior flooring	0-18	72,200
Locker rooms	13	110,000
Swimming pool	8-13	55,540
Spa	11	65,000
Steam room	0-1	24,500
Racquetball court	27	40,000
Outdoor tennis courts	0-14	323,600
Paddle tennis courts	5-10	20,600
Basketball courts	0-8	21,180
Volleyball courts	1-2	7,000
Restroom facility	0	12,500
Outdoor furniture	2	20,790
Appliances	0-9	17,000
Indoor furniture	1-5	30,500
Computer equipment	0	6,100
Televisions	0-5	20,500
Audio equipment	3-5	20,500
Rooftop units	3-14	91,000
2 nd level HVAC	2	14,000
HRVs	12	4,500
Pool HVAC	4-8	135,000
Pool and spa filters	6	5,100
Domestic water heaters	0-2	13,500
Pool and spa boilers	0-2	11,000
Pool and spa circulation pumps	0	3,600
Radiant heat system	3	87,500
General equipment	0	10,000

See independent accountant's review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Supplementary Information on Future Repairs and Maintenance
December 31, 2017
(Continued)

Project	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Detection system	14	20,500
Elevators	13-23	42,000
Pickup truck	1-6	37,200
Passenger van	15	7,500
Trailer	4	6,000
Tractor	5	29,500
Walk behind mower	7	4,000
Riding mower	3-9	20,000
Skid steer	5	52,500
Aerator	3-4	16,100
Power roller	3	7,000
Association owned units	2-12	45,000
Events equipment	0	10,000
Reserve study	0	4,500
Total		<u>2,967,959</u>

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs.

Funds are being accumulated in the Replacement Reserve based on estimated future costs for repairs and replacements of common property components. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Replacement Reserve may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to a majority vote at the board meeting, to increase regular assessments, use Capital reserve funds, pass special assessments, or delay major repairs and replacements until funds are available.

See independent accountant's review report