

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

Financial Report

**December 31, 2020
(Unaudited)**



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Table of Contents

	Page
INDEPENDENT ACCOUNTANT'S REVIEW REPORT	1 – 2
Financial Statements:	
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 – 13
Supplementary Information:	
Schedule of Comparison of Operating Fund Revenues, Expenses, and Transfers – Budget (Non-GAAP Basis) to Actual With Reconciliation to GAAP Basis	14 – 15
Schedule of Replacement Fund Expenses	16
Schedule of Future Major Repairs and Replacements	17 – 18



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

**To the Board of Directors
The Homestead Owners Association, Inc.
Edwards, Colorado**

Report on the Financial Statements

We have reviewed the accompanying financial statements of The Homestead Owners Association, Inc. (the "Association"), a Colorado non-profit corporation, which comprise the balance sheets as of December 31, 2020, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year 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 Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement 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 be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's 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 conformity with the accounting principles generally accepted in the United States of America.

Member: American Institute of Certified Public Accountants

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

**To the Board of Directors
The Homestead Owners Association, Inc.
Edwards, Colorado**

Emphasis of Matter

As discussed in Note 12 to the financial statements, in 2020, the Association adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent amendments to the ASU. Our conclusion is not modified with respect to this matter.

Other Matters

The prior year summarized information has been derived from the Association's fiscal year 2019 financial statements, which were reviewed by us. Our report dated January 18, 2020 stated we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with the accounting principles generally accepted in the United States of America.

The supplementary schedules on pages 14 – 16 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the representation of the Association's management. Except for the Association's budget – which was compiled from information that is the representation of management, without audit or review, and on which we do not express an opinion or provide any assurance – we have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on pages 17 – 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
March 4, 2021**

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2020
(With Comparative Totals for December 31, 2019)
(Unaudited)

	2020		2019	
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Current Assets:				
Cash and cash equivalents	368,446	928,376	1,296,822	306,668
Cash, restricted for deposits	7,900	-	7,900	7,899
Investments	-	437,569	437,569	1,239,632
Accounts receivable from owners, net	159,405	-	159,405	158,108
Interest receivable	-	-	-	872
Inventories, at cost	8,644	-	8,644	9,508
Prepaid expenses	16,650	-	16,650	19,761
Total Current Assets	561,045	1,365,945	1,926,990	1,742,448
Property and Equipment:				
Land - Park DeClark	-	-	-	-
Condominium	159,118	-	159,118	159,118
Furniture, fixtures and equipment	331,411	-	331,411	311,051
Accumulated depreciation	(390,358)	-	(390,358)	(366,184)
Total Property and Equipment	100,171	-	100,171	103,985
Total Assets	661,216	1,365,945	2,027,161	1,846,433
Liabilities and Fund Balances:				
Current Liabilities:				
Trade accounts payable	29,750	-	29,750	11,710
Retainage payable	-	10,000	10,000	10,000
Escrow deposit payable	7,501	-	7,501	7,500
Pre-billed dues	122,257	-	122,257	121,961
Accrued payroll taxes	1,722	-	1,722	1,106
Accrued property taxes	15,372	-	15,372	16,265
Accrued wages	19,973	-	19,973	10,834
Deferred revenue	25,643	-	25,643	22,282
Note payable, current	-	114,157	114,157	106,050
Total Current Liabilities	222,218	124,157	346,375	307,708
Other Liabilities:				
Rental deposit	2,125	-	2,125	2,125
Nonmember deposits	1,800	-	1,800	2,650
Total Other Liabilities	3,925	-	3,925	4,775
Long-Term Debt:				
Note payable, noncurrent, net	142,243	95,549	237,792	312,481
Total Long-Term Debt	142,243	95,549	237,792	312,481
Total Liabilities	368,386	219,706	588,092	624,964
Fund Balances	292,830	1,146,239	1,439,069	1,221,469
Total Liabilities and Fund Balances	661,216	1,365,945	2,027,161	1,846,433

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)
(Unaudited)

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Owner assessments	1,029,945	-	1,029,945	1,025,745
Member dues	277,111	-	277,111	325,989
Activity income	434,370	-	434,370	556,262
Rental income	72,624	-	72,624	79,339
Investment income	278	15,562	15,840	36,765
Other revenue	14,426	-	14,426	14,282
Total Revenues	1,828,754	15,562	1,844,316	2,038,382
Expenses:				
Activity cost of revenues	34,849	-	34,849	46,191
Amortization	-	-	-	620
Bad debts	1,005	-	1,005	178
Bank charges	5,088	-	5,088	6,423
Building and ground maintenance	134,122	-	134,122	137,075
Copier lease	7,201	-	7,201	7,586
Depreciation	24,174	-	24,174	16,843
Membership expense	20,114	-	20,114	60,635
Education	3,182	-	3,182	5,512
Utilities	106,235	-	106,235	115,800
Employee expenses	11,110	-	11,110	14,996
Homestead CCTH dues	5,517	-	5,517	5,044
Insurance	100,723	-	100,723	86,645
Legal and accounting	49,715	-	49,715	50,563
Other expense	19,770	-	19,770	6,184
Office supplies	21,079	-	21,079	23,432
Payroll taxes	63,149	-	63,149	67,216
Real estate taxes	15,081	-	15,081	16,265
Salaries and wages	797,510	-	797,510	843,420
Replacement expenses	-	207,092	207,092	486,557
Total Expenses	1,419,624	207,092	1,626,716	1,997,185
Excess of Revenues Over Expenses	409,130	(191,530)	217,600	41,197
Beginning Fund Balances	154,015	1,067,454	1,221,469	1,217,439
Transfer	(270,315)	270,315	-	-
Prior period adjustment	-	-	-	(37,167)
Ending Fund Balances	292,830	1,146,239	1,439,069	1,221,469

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended December 31, 2020
(With Comparative Totals for the Year Ended December 31, 2019)
(Unaudited)

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
Cash Flows from Operating Activities:				
Cash received from owners	1,305,206	-	1,305,206	1,346,412
Cash received from activities	437,731	-	437,731	556,685
Cash received from rent	72,624	-	72,624	79,339
Cash received from interest	278	21,497	21,775	29,133
Other cash receipts	14,426	-	14,426	14,282
Interest paid	-	12,171	12,171	(19,435)
Cash paid for salaries and benefits	(850,904)	-	(850,904)	(910,232)
Cash paid for goods and services	(513,669)	(218,643)	(732,312)	(1,048,447)
Transfer (to) from other fund	(270,315)	270,315	-	-
Net Cash Provided by Operating Activities	195,377	85,340	280,717	47,737
Cash Flows from Investing Activities:				
Cash payment for equipment	(20,360)	-	(20,360)	(59,217)
Cash received from redemption/sale of investments	-	1,279,000	1,279,000	100,000
Cash paid to purchase investments	-	(482,000)	(482,000)	(100,000)
Net Cash Provided (Used) by Investing Activities	(20,360)	797,000	776,640	(59,217)
Cash Flows from Financing Activities:				
Cash received as proceeds of note payable	142,243	-	142,243	-
Cash repaid on note payable principal	-	(209,445)	(209,445)	(300,942)
Net Cash Provided (Used) by Financing Activities	142,243	(209,445)	(67,202)	(300,942)
Net Increase (Decrease) in Cash and Cash Equivalents	317,260	672,895	990,155	(312,422)
Net Cash and Cash Equivalents - Beginning of Year	59,086	255,481	314,567	626,989
Net Cash and Cash Equivalents - End of Year ***	376,346	928,376	1,304,722	314,567
***Balance sheet captions:				
Cash - Unrestricted	368,446	928,376	1,296,822	306,668
Cash - Restricted for deposits	7,900	-	7,900	7,899
	376,346	928,376	1,304,722	314,567
Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:				
Excess of revenues over expenses	409,130	(191,530)	217,600	41,197
Adjustments to reconcile:				
Depreciation	24,174	-	24,174	16,843
Amortization	-	620	620	620
Unrealized (gain) loss on investments	-	5,063	5,063	(7,632)
(Increase) decrease in accounts receivable	(1,297)	-	(1,297)	(12,016)
(Increase) decrease in interest receivable	-	872	872	-
(Increase) decrease in prepaid expenses	3,111	-	3,111	(5,639)
(Increase) decrease in inventories	864	-	864	378
Increase (decrease) in accounts payable	18,040	-	18,040	(3,537)
Increase (decrease) in retainage payable	-	-	-	10,000
Increase (decrease) in deposits payable	(849)	-	(849)	7,250
Increase (decrease) in deferred assessments	296	-	296	(555)
Increase (decrease) in other liabilities	12,223	-	12,223	828
Transfer (to) from other fund	(270,315)	270,315	-	-
Total Adjustments	(213,753)	276,870	63,117	6,540
Net Cash Provided by Operating Activities	195,377	85,340	280,717	47,737

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)

1. Organization

The Homestead Owners Association, Inc. (the "Association") is a statutory association organized as a not-for-profit corporation in the State of Colorado. The Association was incorporated on July 14, 1982 and began operations in 1983 in Edwards, Colorado. 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 850 acre Homestead development. 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 815 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. Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. The common expenses of the Association are paid by the Association for its members. The Board of Directors estimates the expenses, and the Association's members are assessed for their pro-rata share.

B. Fund Accounting

The Association uses the fund method of accounting, which requires that funds, such as the Operating Fund and funds for future major repairs and replacements (Replacement Fund), be classified separately for accounting and reporting purposes. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors or Property Manager. Disbursements from the Replacement Fund may be made only for their designated purposes.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Association defines cash equivalents as all highly liquid investments with a maturity of less than three months.

D. Investments

The Association has invested certain excess funds in certificates of deposit that are held in brokerage accounts and with original maturities of greater than 90 days when purchased. The investments are considered debt securities and are reported at fair value, with all realized and unrealized gains or losses included in current period earnings.

E. Recognition of Assets

Real and personal property acquired by the Association is recognized on the Association's financial statements as capitalized fixed assets and is recorded at cost. The property is depreciated using the straight-line method over the following estimated useful lives:

	Estimated Useful Lives
Condominium Unit	29
Furniture, Fixtures & Equipment	3-10

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

2. Summary of Significant Accounting Policies (continued)

E. Recognition of Assets (continued)

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

F. Accounts Receivable

The Association recognizes bad debts by the allowance method. No provision for doubtful accounts has been made because all amounts are considered collectable.

G. Prepaid Expenses

Prepaid expenses represent goods and services paid for in fiscal year 2020 for expenses associated with fiscal year 2021.

H. 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.

I. Accounts Payable

Accounts payable represented goods and services rendered in fiscal year 2020, but not paid for until fiscal year 2021.

J. Debt Issuance Costs

Debt issuance costs, including origination and other fees incurred to obtain long-term financing, are amortized over the term to maturity of the underlying indebtedness. The unamortized amount is presented as a reduction of long-term debt on the balance sheet.

K. Pre-billed Assessments Revenue

Pre-billed assessments revenue represents assessments for the next fiscal year, which have been billed to owners in advance. The Association bills owners monthly.

L. Deferred Revenue

Deferred revenue represents fees for various recreational and training programs and sessions, guests, and babysitting paid for in 2020, but not redeemed. The revenue will be recognized when the services are rendered in a future period.

M. 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. After July 31, 2003, nonmembers are charged a non-refundable Admin/Set-up fee of \$250.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

2. Summary of Significant Accounting Policies (continued)

N. 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 the 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.

O. Revenues and Revenue Recognition

Common assessments are a primary source of revenue for the Association. The Board, with the assistance of on-site management, prepares an annual budget to estimate the annual expenses of maintaining the Association's common elements. On an annual basis, members of the Association are assessed for their respective pro-rata share of these estimated expenses, which are payable in monthly installments.

The Association has determined that the relationship of the members to the Association is not that of a customer as defined in generally accepted accounting principles, since the members control the governance of the Association, and it is not possible to separate the members from the Association itself. Further, the nature of the Association's governing documents as it relates to the billing and collection of member assessments does not meet the definition of a contract under generally accepted accounting principles. Consequently, all assessment revenues are recognized as revenue by the Association when levied, as determined by the Board-approved annual budget.

The Association also recognizes revenues from fees for various recreational and training programs and sessions, guests, babysitting, and administrative fees and fines as earned upon provision of the underlying goods or service. Non-resident members and owner tenant dues are valid on a monthly basis, so these membership fee revenues are recognized ratably over the monthly period. Kid camp revenues are recognized ratably over the period of the camp. All such revenues are non-refundable.

Since the Association is designed only to operate as a conduit to collect assessments and pay operating expenses on behalf of members, any excess or deficiency of revenues over expenses is repaid to or recovered from the members in a subsequent year by reducing or increasing assessments, accumulating a reasonable reserve for common expenses or, with the approval of the Board, transferred to the Replacement Fund.

P. Rental Income

The Association leases the day-care center within the Clubhouse to Gore Range Montessori-Edwards, LLC. The lease began on July 1, 2011 (the "commencement date") for a term of five years ending on June 30, 2016, with the option to extend for an additional 5 years. The rent to the Association is \$2,125 per month upon commencement of the lease, with a 3% increase on each anniversary of the commencement date.

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

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

2. Summary of Significant Accounting Policies (continued)

P. Rental Income (continued)

The Association's condominium unit is rented to an employee at a discounted rental rate in exchange for services provided to the Association. The carrying value of the unit as of December 31, 2020 was \$15,022

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

Q. 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.

R. Income Taxes

The Association has filed for and obtained non-profit status from the State of Colorado, therefore no stock was issued by the Corporation. The Association is not tax exempt for Federal and State income tax purposes and therefore must file Federal and State income tax returns as a corporation for profit.

The income tax returns of the Association are subject to examination by the Internal Revenue Service and the Colorado Department of Revenue. The Association's returns are no longer subject to examination for tax years prior to 2017 by the Internal Revenue Service and for tax years prior to 2016 by the Colorado Department of Revenue.

S. Subsequent Events

Management has evaluated subsequent events through March 4, 2021; the date these financial statements were available to be issued.

T. Comparative Information

The financial statements include certain prior year comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2019, from which the comparative totals were derived.

Certain balances in the Association's expenses for fiscal year 2019 have been reclassified to conform to the basis of presentation used in fiscal year 2020. Total net assets for fiscal year 2019 remain unchanged as a result of this reclassification.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

3. Investments

Accounting guidance establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consists of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

At December 31, 2020, the Association held investments reported at fair value and are categorized as in the following table:

	<u>Fair Value</u>	<u>Fair Value Measurement Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Certificates of deposit	\$ 437,569	-	437,569	-
Total investments at fair value	\$ 437,569	-	437,569	-

At December 31, 2020, the Association held the following certificates of deposit:

Maturing within one year; interest from 2.25% per annum	\$ 100,754
Maturing in one - three years; interest from 0.6% - 2.4% per annum	336,815
	<u>\$ 437,569</u>

The following schedule summarizes the investment income in the Statements of Revenues, Expenses, and Changes in Fund Balance:

Interest income	\$ 23,529
Unrealized gains (losses)	(7,689)
Total	<u>\$ 15,840</u>

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

4. Fixed Assets

The Association's property, equipment, and related accumulated depreciation as of December 31, 2020, are as follows:

Condominium Unit	\$	159,118
At cost		490,529
Less: Accumulated depreciation		(390,358)
Property and equipment, net	\$	100,171

5. Future Major Repairs and Replacements

The Association's governing documents allow for the accumulation of funds for future major repairs and replacements. Accumulated amounts are held in funds and generally are not available for expenditures for operations.

In 2020, the Board commissioned a study by independent reserve engineers to estimate the remaining useful lives and the replacement costs of the components of common property. The unaudited supplemental Schedule of Future Major Repairs and Replacements on pages 17 – 18 is based on that study. The information has been classified into major areas of the Association's common elements and property.

The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund.

Funds are being accumulated in the Replacement Fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the Replacement Fund 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 the Board's approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

6. Capital Reserve Fund

The Board has adopted a funding program for certain future capital expenditures in the form of a Capital Reserve Fund. The Board, with the assistance of on-site management, prepares an annual budget to estimate the annual capital contribution which is intended to finance interest expense on the note payable as well as any capital improvement projects beyond what is recommended in the replacement study. For the years ended December 31, 2020 and 2019, any remaining balance in the Capital Reserve Fund was transferred to the Replacement Fund.

7. Non-monetary Transactions

One employee of the Association is given free housing in exchange for services rendered to the Association. The employee housing is exchanged for security and 15 to 30 hours of services per week.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

8. 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 created the Save the Park Fund to donate \$12,000 to the District and the Association provided the District with an additional \$80,000. 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 by 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.

9. Notes Payable

A. Remodel Loan

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 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. The original loan bore interest at an annual fixed rate of 4.00% for the first phase through July 15, 2015. The annual rate then increased 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 note may be prepaid in full or in part at any time. The modified note matures December 21, 2026. The modified note requires the borrower to maintain \$500,000 on deposit with ANB Bank.

Loan fees of \$9,766 paid in conjunction with the promissory note, which includes \$250 for the loan modification, have been capitalized and are being amortized over the life of the loan. The amortization expense for 2020 is \$620.

During 2020, the Association made loan principal payments in the amount of \$209,445, including an optional additional principal payment of \$100,000.

Year ending December 31, 2021	\$ 114,157
Year ending December 31, 2022	101,348
Total Notes Payable	<u>215,505</u>
Less: Unamortized issuance cost	(5,799)
Notes Payable, net of unamortized issuance costs	<u><u>\$ 209,706</u></u>

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2020
(Unaudited)
(Continued)

9. Notes Payable (continued)

B. Small Business Administration Loan

In April 2020, the Association executed a promissory note with Alpine Bank, under the United States Small Business Administration's Payroll Protection Program, in the amount of \$142,243 (the "PPP Loan"). The PPP Loan, which is unsecured and bears interest at 1% per annum, matures in April 2022. No payments are due for the first six months of the loan term, and blended monthly payments of \$8,005 are to begin in November 2020. However, payments may be deferred under the guidelines of the Payroll Protection Program, and the PPP Loan and related interest is forgivable provided the Association uses the proceeds for qualified purposes within the timeframe prescribed by the Payroll Protection Program. The balance of the PPP Loan at December 31, 2020 was \$142,243.

Although the Association anticipates meeting the conditions for full forgiveness of the PPP Loan, the PPP Loan remains a liability of the Association at December 31, 2020.

Unless deferred or forgiven, principal payments on the notes are due in future years as follows:

Year ending December 31, 2021	\$ 95,220
Year ending December 31, 2022	47,023
Total Notes Payable	<u><u>\$ 142,243</u></u>

10. Revenue from Contracts with Customers

For the year ended December 31, 2020, revenue recognized for goods transferred or performance obligations met at a point in time (at the time of service or transfer of merchandise) were \$380,190 and revenues recognized for goods transferred or performance obligations met over time were \$345,717. Revenues may be affected by general economic conditions and inflationary pressures. Revenues are primarily collected from resident members of the Association.

11. Concentration of Credit Risk

The Association's cash balances held with financial institutions were insured by the Federal Deposit Insurance Corporation (the "FDIC") at December 31, 2020 up to \$250,000 per depositor at each separately chartered FDIC-member financial institution, without regard to the nature of the accounts. At December 31, 2020, the Association's uninsured cash balances totaled \$710,698.

12. New Accounting Standard

Effective January 1, 2020, the Association implemented Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), issued by the Financial Accounting Standards Board ("FASB"), and all subsequent amendments. ASU 2014-09 requires enhanced disclosures of the Association's revenue recognition policies. The implementation of ASU 2014-09 has been applied retrospectively to all periods presented, with no effect to net assets or previously issued financial statements.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Schedule of Comparison of Operating Fund Revenues, Expenses, and Transfers
Budget (Non-GAAP Basis) to Actual
With Reconciliation to GAAP Basis
For the Year Ended December 31, 2020
(With Comparative Actual Amounts for the Year Ended December 31, 2019)
(Unaudited)

	<u>2020</u>		Variance Positive (Negative)	<u>2019</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Owner assessments	1,026,900	1,029,945	3,045	1,025,745
Member dues	318,000	277,111	(40,889)	325,989
Activity income	509,100	434,370	(74,730)	556,262
Rental income	77,000	72,624	(4,376)	79,339
Investment income	18,000	15,840	(2,160)	36,765
Other revenue	11,100	14,426	3,326	14,282
Total Revenues (Budget Basis)	<u>1,960,100</u>	<u>1,844,316</u>	<u>(115,784)</u>	<u>2,038,382</u>
Expenses:				
Activity Expense				
Kids camp expense	11,000	6,789	4,211	10,227
Babysitting expense	500	111	389	794
Proshop cost of goods sold	13,000	11,807	1,193	15,049
Swimming expense	500	-	500	220
Aerobics room expense	6,000	1,412	4,588	2,712
Tennis expense	14,000	3,451	10,549	8,873
Weight room expense	7,000	1,739	5,261	3,381
Cardiovascular equipment expense	10,000	9,540	460	4,935
Total Activity Expense	<u>62,000</u>	<u>34,849</u>	<u>27,151</u>	<u>46,191</u>
Building and Grounds Maintenance				
Pool maintenance	10,000	8,042	1,958	13,543
Pool chemicals	4,000	1,647	2,353	2,976
Tennis court maintenance	8,000	7,506	494	8,592
Cleaning supplies	22,000	35,725	(13,725)	23,918
Maintenance supplies	8,000	4,815	3,185	6,424
Linens	3,500	700	2,800	2,941
Locker room amenities	2,500	1,379	1,121	2,681
DMX Cable expense	11,000	12,071	(1,071)	10,296
Building maintenance	19,000	13,483	5,517	12,734
Maintenance equipment	6,500	4,682	1,818	6,860
Truck expense	7,000	5,514	1,486	8,257
Grounds maintenance	20,000	18,600	1,400	14,982
Snow removal	2,000	1,567	433	2,711
Landscape maintenance	20,000	18,391	1,609	20,160
Total Building and Grounds Maintenance	<u>143,500</u>	<u>134,122</u>	<u>9,378</u>	<u>137,075</u>
Membership Expense				
Special events	46,000	7,823	38,177	48,976
Member communications	3,500	3,450	50	3,189
Meeting expense	2,500	553	1,947	1,991
Postage	6,000	6,189	(189)	6,291
Design review expense	1,000	2,099	(1,099)	188
Total Membership Expense	<u>59,000</u>	<u>20,114</u>	<u>38,886</u>	<u>60,635</u>

(Continued)

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Schedule of Comparison of Operating Fund Revenues, Expenses, and Transfers
Budget (Non-GAAP Basis) to Actual
With Reconciliation to GAAP Basis (continued)
For the Year Ended December 31, 2020
(With Comparative Actual Amounts for the Year Ended December 31, 2019)
(Unaudited)

	<u>2020</u>		Variance Positive (Negative)	<u>2019</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Utilities Expense				
Telephone	4,500	4,742	(242)	4,587
Electric	47,000	29,109	17,891	45,148
Natural gas	18,000	20,068	(2,068)	18,743
Water and sewer	41,000	47,156	(6,156)	42,232
Trash removal	5,500	5,160	340	5,090
Total Utilities Expense:	<u>116,000</u>	<u>106,235</u>	<u>9,765</u>	<u>115,800</u>
Operating Expense				
Salaries and wages	864,135	797,510	66,625	843,420
Payroll taxes	82,549	63,149	19,400	67,216
Property taxes	15,000	15,081	(81)	16,265
Bad debts	1,000	1,005	(5)	178
Education	8,000	3,182	4,818	5,512
Association membership fees	500	-	500	-
Bank charges	5,600	5,088	512	6,423
Office supplies	26,000	21,079	4,921	23,432
Copier lease	8,000	7,201	799	7,586
Employee expense	14,000	11,110	2,890	14,996
Accounting	49,000	47,016	1,984	49,627
Legal	3,000	2,699	301	936
Homestead CCTH dues	5,124	5,517	(393)	5,044
Insurance	100,000	100,723	(723)	86,645
Other expense	7,000	19,770	(12,770)	6,184
Total Operating Expense:	<u>1,188,908</u>	<u>1,100,130</u>	<u>88,778</u>	<u>1,133,464</u>
Total Expenses (Budget Basis)	<u>1,569,408</u>	<u>1,395,450</u>	<u>173,958</u>	<u>1,493,165</u>
Transfers In (Out)	<u>(390,692)</u>	<u>(270,315)</u>	<u>120,377</u>	<u>(300,027)</u>
Net Change in Fund Balance (Budget Basis)	<u>-</u>	<u>178,551</u>	<u>(169,365)</u>	<u>245,190</u>
Reconciliation to GAAP Basis:				
Depreciation		(24,174)		(16,843)
Amortization		-		(620)
Replacement fund investment income		(15,562)		(36,545)
Net Change in Fund Balance (GAAP Basis)		<u>138,815</u>		<u>191,182</u>

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Schedule of Replacement Fund Expenses
For the Year Ended December 31, 2020
(Unaudited)

Replacement Expenses:	
Interest expense	11,551
Other capital expenses	2,323
Asphalt parking area	10,678
Timber stairways	1,100
Community paths	1,244
Community wood decking	3,183
Siding and trim	2,793
Roofing	1,000
Court club exterior deck and stairs	641
Steam room	360
Restroom facility	4,380
Appliances	2,801
Indoor furniture	10,583
Computer equipment	23,671
Televisions	5,215
Audio equipment	8,817
Rooftop Units	27,129
Pool HVAC	12,122
Pool and spa boilers	1,494
Pool and spa circulation pumps	1,620
General equipment	17,709
Pickup truck	3,044
Tractor	4,961
Riding mower	660
Tennis equipment	1,200
Association owned units	6,381
Events equipment	8,558
Reserve study	2,500
Storage unit	9,882
Landscaping and equipment	<u>19,492</u>
Total Replacement Expenses:	<u><u>207,092</u></u>

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2020
(Unaudited)

The Association's management conducted a study in 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The study was based on inspection of the property, management's experience, and input from the Board.

Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

The following table is based on the study, which is updated annually, and presents significant information about the components of the Association's common property. The Board has not allocated the balance of the Replacement Fund at December 31, 2020 to specific components of the common elements.

<u>Components</u>	<u>Estimated Remaining Useful Lives in Years</u>	<u>Estimated Current Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2020</u>
Site drainage	0	\$ 8,240	
Asphalt parking area	0-7	120,582	
Asphalt driveways	0-14	90,377	
Asphalt walkways around the court club	0-6	30,282	
Concrete pool deck	26	38,625	
Timber retaining walls	0	13,302	
Community lighting	0-25	29,664	
Timber stairways	0-5	17,285	
Playground equipment	0-7	175,100	
Community paths	0-5	4,133	
Entrance monuments	14	6,180	
Community signage	0-1	19,776	
Community wood decking	0-13	22,936	
Community benches and tables	1	16,738	
Siding and trim	0-5	22,248	
Windows and doors	0-33	192,198	
Roofing	0-40	624,129	
Metal roofing	29	90,640	
School lease space	10	32,445	
Indoor tennis courts	0-8	74,222	
Daycare area	1	8,240	
Pool area	1-3	17,510	
Court club front entrance	1	5,150	
Court club exterior decks and stairs	0-4	108,408	
Interior flooring	1-14	84,769	
Locker rooms	9	133,900	
Swimming pool	9	65,663	
Spa	7	74,160	
Steam room	2-10	31,415	
Fitness equipment	0-5	16,480	
Racquetball court	23	51,500	
Outdoor tennis courts	0-10	460,925	
Paddle tennis courts	1-10	22,660	
Pickleball court	0-2	61,311	
Volleyball courts	0-4	9,785	
Total to Subsequent Page		<u>\$ 2,780,978</u>	

(Continued)

See accompanying notes and Independent Accountant's Review Report.

The Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements (continued)
December 31, 2020
(Unaudited)

<u>Components</u>	<u>Estimated Remaining Useful Lives in Years</u>	<u>Estimated Current Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2020</u>
Total from previous page		\$ 2,780,978	
Restroom facility	3-4	20,085	
Outdoor furniture	4	25,379	
Appliances	0-17	21,991	
Indoor furniture	0-4	33,578	
Computer equipment	0-3	14,009	
Televisions	0-3	23,278	
Audio equipment	1-5	21,115	
Rooftop units	3-10	99,910	
2nd level HVAC	1	20,600	
HRVs	8	4,635	
Pool HVAC	3-4	145,230	
Pool and spa filters	0	12,360	
Domestic water heaters	0-1	16,789	
Pool and spa boilers	0-1	14,935	
Pool and spa circulation pumps	0-2	4,120	
Radiant heat system	22	90,125	
General equipment	0-2	15,450	
Switch panels	16	25,750	
Detection system	10	21,115	
Elevators	5-9	65,920	
Pickup truck	0-2	56,341	
Passenger van	11	15,450	
Trailer	4	8,240	
Tractor	2-4	42,745	
Walk behind mower	0	6,180	
Riding mower	5-6	22,248	
Skid steer	1	58,813	
Landscaping air compressor	1	5,150	
Aerator	0-1	17,510	
Snow blower	2	8,240	
Tennis equipment	1-13	32,960	
Association-owned units	0-4	84,460	
Events equipment	1	10,300	
Reserve study	2	5,150	
Storage unit	0	10,506	
Total		<u>\$ 3,861,645</u>	<u>\$ 1,146,239</u>

See accompanying notes and Independent Accountant's Review Report.