

**The Grand Lodge on Peak 7 Owners Association, Inc.**

**Financial Report**

**December 31, 2019 and 2018**



**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**December 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
The Grand Lodge on Peak 7 Owners Association, Inc.  
Breckenridge, Colorado**

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of The Grand Lodge on Peak 7 Owners Association, Inc. (the "Association"), a Colorado non-profit corporation, which comprise the balance sheets as of December 31, 2019, 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.

### ***Management's Responsibilities***

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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Grand Lodge on Peak 7 Owners Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Member: American Institute of Certified Public Accountants*

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**INDEPENDENT AUDITOR'S REPORT**  
**To the Board of Directors**  
**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**Breckenridge, Colorado**

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, except for that portion marked "unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on pages 14 – 15 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Report on Summarized Comparative Information***

We have previously audited the Association's December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McMahan and Associates, L.L.C.*

**McMahan and Associates, L.L.C.**  
**April 30, 2020**

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Balance Sheets**  
**December 31, 2019**  
**(With Comparative Totals for 2018)**

	<b>2019</b>				<b>2018</b>	
	<b>Operating Fund</b>	<b>Common Reserve Fund</b>	<b>Unit Reserve Fund</b>	<b>A/C Reserve Fund</b>	<b>Total</b>	<b>Total</b>
<b>Assets:</b>						
Cash in banks	1,534,579	259,967	406,616	-	2,201,162	2,657,297
Investments	-	735,454	1,150,325	-	1,885,779	921,278
Member assessments receivable (net of allowance for doubtful accounts of \$126,639 in 2019 and \$120,988 in 2018)	203,597	-	-	-	203,597	171,971
Accrued interest receivable	5,702	-	-	-	5,702	176
Accounts receivable - Other	46,004	-	-	-	46,004	16,775
Due from Grand Timber Lodge	1,962	-	-	-	1,962	2,323
Due from Grand Colorado on Peak 8	21,470	-	-	-	21,470	-
Unit supplies inventory	29,839	-	-	-	29,839	25,682
Prepaid expenses	75,852	-	-	-	75,852	64,414
Due from (to) other funds	418,805	(36,166)	(281,068)	(101,571)	-	-
Fixed assets (net of accumulated depreciation of \$180,800 in 2019 and \$150,180 in 2018)	25,464	-	-	-	25,464	56,085
<b>Total Assets</b>	<u>2,363,274</u>	<u>959,255</u>	<u>1,275,873</u>	<u>(101,571)</u>	<u>4,496,831</u>	<u>3,916,001</u>
<b>Liabilities and Fund Balances:</b>						
<b>Liabilities:</b>						
Accounts payable	139,724	-	-	-	139,724	139,704
Accounts payable - Other	49,320	-	-	-	49,320	-
Deferred assessment revenue	196,689	-	-	-	196,689	165,435
Property taxes payable	673,126	-	-	-	673,126	646,444
Reserve study payable	3,000	-	-	-	3,000	3,000
Due to Gold Point Condominium	1,344	-	-	-	1,344	404
Due to Gold Point II Condominium	1,028	-	-	-	1,028	-
Due to Grand Colorado on Peak 8	-	-	-	-	-	452
Due to (from) Management Companies	626,189	-	-	-	626,189	523,121
Notes payable	-	-	-	115,201	115,201	315,201
<b>Total Liabilities</b>	<u>1,690,420</u>	<u>-</u>	<u>-</u>	<u>115,201</u>	<u>1,805,621</u>	<u>1,793,761</u>
<b>Fund Balances (Deficit)</b>	<u>672,854</u>	<u>959,255</u>	<u>1,275,873</u>	<u>(216,772)</u>	<u>2,691,210</u>	<u>2,122,240</u>
<b>Total Liabilities and Fund Balances (Deficit)</b>	<u>2,363,274</u>	<u>959,255</u>	<u>1,275,873</u>	<u>(101,571)</u>	<u>4,496,831</u>	<u>3,916,001</u>

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

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Statements of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2019**  
**(With Comparative Totals for 2018)**

	<b>2019</b>				<b>2018</b>	
	<b>Operating Fund</b>	<b>Common Reserve Fund</b>	<b>Unit Reserve Fund</b>	<b>A/C Reserve Fund</b>	<b>Total</b>	<b>Total</b>
<b>Revenues:</b>						
Assessments, net of discounts	7,621,065	679,269	797,744	221,172	9,319,250	8,632,849
Contribution to operating fund	-	-	(1,195)	-	(1,195)	-
Interest income	16,128	30,762	48,116	-	95,006	22,096
Late fee revenue	178,600	-	-	-	178,600	149,363
Exchange resort fee	70,925	-	-	-	70,925	120
Rental resort fee	79,037	-	-	-	79,037	976
Miscellaneous income	46,840	-	-	-	46,840	37,164
<b>Total Revenues</b>	<b>8,012,595</b>	<b>710,031</b>	<b>844,665</b>	<b>221,172</b>	<b>9,788,463</b>	<b>8,842,568</b>
<b>Expenses:</b>						
Accounting fees and I.T.	63,893	-	-	-	63,893	60,850
Assessment servicing fees	101,814	-	-	-	101,814	158,343
Activities	83,751	-	-	-	83,751	-
Bad debt expense	45,289	-	-	-	45,289	71,422
Common area amenities	211,508	-	-	-	211,508	117,276
Credit card fees	65,482	-	-	-	65,482	57,148
Depreciation	30,620	-	-	-	30,620	35,659
Elevator maintenance	138,580	-	-	-	138,580	61,473
Fire alarm maintenance	48,103	-	-	-	48,103	40,149
Front desk and reservation fees	1,015,008	-	-	-	1,015,008	966,675
Future equipment replacement	49,320	-	-	-	49,320	-
Hot tub and pool maintenance	52,476	-	-	-	52,476	44,638
HR fees	211,892	-	-	-	211,892	201,802
Insurance	122,392	-	-	-	122,392	109,839
Interest	-	-	-	8,269	8,269	18,756
Landscaping	18,185	-	-	-	18,185	22,865
Management fees	319,926	-	-	-	319,926	304,692
Master Association dues	62,936	-	-	-	62,936	59,783
Postage	-	-	-	-	-	429
Printing and key fobs	55,893	-	-	-	55,893	48,312
Professional fees	11,063	-	-	-	11,063	15,618
Property tax expense	675,804	-	-	-	675,804	646,444
Security	144,920	-	-	-	144,920	141,385
Short term rental tax	11,475	-	-	-	11,475	12,475
Sustainability	18,036	-	-	-	18,036	-
Television	28,395	-	-	-	28,395	32,362
Trash removal	47,582	-	-	-	47,582	38,231
Travel and entertainment	10,613	-	-	-	10,613	9,596
Truck lease	-	-	-	-	-	8,140
Cleaning	2,316,186	-	-	-	2,316,186	2,270,349
Unit maintenance	1,025,966	-	-	-	1,025,966	936,333
Unit telephones	41,207	-	-	-	41,207	45,796
Unit utilities	445,294	-	-	-	445,294	502,354
Water and sanitation	164,653	-	-	-	164,653	156,504
Common reserve - Building exterior	-	108,900	-	-	108,900	30,105
Common reserve - Common area finishes	-	388,063	-	-	388,063	584,682
Common reserve - Pools and spas	-	41,239	-	-	41,239	33,089
Unit reserve - Furniture	-	-	941,188	-	941,188	566,828
Unit reserve - Appliances	-	-	47,408	-	47,408	45,734
Unit reserve - Inventory replacement	-	-	46,164	-	46,164	15,651
<b>Total Expenses</b>	<b>7,638,262</b>	<b>538,202</b>	<b>1,034,760</b>	<b>8,269</b>	<b>9,219,493</b>	<b>8,471,855</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>374,333</b>	<b>171,829</b>	<b>(190,095)</b>	<b>212,903</b>	<b>568,970</b>	<b>370,713</b>
<b>Beginning Fund Balances (Deficit)</b>	<b>298,521</b>	<b>787,426</b>	<b>1,465,968</b>	<b>(429,675)</b>	<b>2,122,240</b>	<b>1,751,527</b>
<b>Ending Fund Balances (Deficit)</b>	<b>672,854</b>	<b>959,255</b>	<b>1,275,873</b>	<b>(216,772)</b>	<b>2,691,210</b>	<b>2,122,240</b>

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

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Statements of Cash Flows**  
**For the Year Ended December 31, 2019**  
**(With Comparative Totals for 2018)**

	<b>2019</b>				<b>2018</b>	
	<b>Operating Fund</b>	<b>Common Reserve Fund</b>	<b>Unit Reserve Fund</b>	<b>A/C Reserve Fund</b>	<b>Total</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>						
Cash received from assessments	7,943,604	679,269	797,744	221,172	9,641,789	8,680,761
Interest received	10,602	9,507	14,870	-	34,979	33,480
Cash received from other sources	7,202	-	-	-	7,202	(1,027)
Cash transfers from (to) other funds	(78,715)	(415,913)	507,531	(12,903)	-	-
Cash payments for goods and services	(6,776,635)	(538,202)	(1,035,955)	-	(8,350,792)	(7,635,797)
Cash paid for property taxes	(649,122)	-	-	-	(649,122)	(617,900)
Interest paid	-	-	-	(8,269)	(8,269)	(18,756)
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>456,936</b>	<b>(265,339)</b>	<b>284,190</b>	<b>200,000</b>	<b>675,787</b>	<b>440,761</b>
<b>Cash Flows From Investing Activities:</b>						
Purchase of investments	-	(575,250)	(899,750)	-	(1,475,000)	-
Sale of investments	-	220,350	344,650	-	565,000	1,225,000
Transfer of investment allocation	-	101,340	(101,340)	-	-	(100,967)
Purchase of equipment	-	-	-	-	-	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>-</b>	<b>(253,560)</b>	<b>(656,440)</b>	<b>-</b>	<b>(910,000)</b>	<b>1,124,033</b>
<b>Cash Flows From Financing Activities:</b>						
Financing proceeds	-	-	-	-	-	-
Principal paid on notes payable	-	-	-	(200,000)	(200,000)	(200,000)
Capital lease principal payments	-	-	-	-	-	(4,350)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(200,000)</b>	<b>(200,000)</b>	<b>(204,350)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>456,936</b>	<b>(518,899)</b>	<b>(372,250)</b>	<b>-</b>	<b>(434,213)</b>	<b>1,360,444</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>1,099,565</b>	<b>778,866</b>	<b>778,866</b>	<b>-</b>	<b>2,657,297</b>	<b>1,296,853</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>1,556,501</b>	<b>259,967</b>	<b>406,616</b>	<b>-</b>	<b>2,223,084</b>	<b>2,657,297</b>
<b>Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:</b>						
Excess (deficiency) of revenues over expenses	374,333	171,829	(190,095)	212,903	568,970	370,713
<b>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:</b>						
Depreciation	30,620	-	-	-	30,620	35,659
Unrealized (gain) loss on investments	-	(21,255)	(33,246)	-	(54,501)	10,057
Loss (gain) on disposal of assets	-	-	-	-	-	-
(Increase) decrease in assessments receivable	(37,277)	-	-	-	(37,277)	(95,638)
Increase (decrease) in allowance for doubtful accounts	5,651	-	-	-	5,651	33,231
(Increase) decrease in accrued interest	(5,526)	-	-	-	(5,526)	1,327
(Increase) decrease in other receivables	(29,229)	-	-	-	(29,229)	(3,912)
(Increase) decrease in inventory	(4,157)	-	-	-	(4,157)	(9,529)
(Increase) decrease in prepaid expenses	(11,438)	-	-	-	(11,438)	(2,275)
Cash transfers from (to) other funds	(78,715)	(415,913)	507,531	(12,903)	-	-
Increase (decrease) in accounts payable	20	-	-	-	20	(63,659)
Increase (decrease) in other payables	49,320	-	-	-	49,320	452
Increase (decrease) in deferred assessment revenue	31,254	-	-	-	31,254	(6,909)
Increase (decrease) in property taxes payable	26,682	-	-	-	26,682	27,612
Increase (decrease) in due to related parties	103,068	-	-	-	103,068	144,551
Increase (decrease) in due to other associations	2,330	-	-	-	2,330	(1,919)
Increase (decrease) in reserve study payable	-	-	-	-	-	1,000
<b>Total Adjustments</b>	<b>82,603</b>	<b>(437,168)</b>	<b>474,285</b>	<b>(12,903)</b>	<b>106,817</b>	<b>70,048</b>
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>456,936</b>	<b>(265,339)</b>	<b>284,190</b>	<b>200,000</b>	<b>675,787</b>	<b>440,761</b>

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

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**

**1. Organization**

The Grand Lodge on Peak 7 Owners Association, Inc., (the "Association") is a condominium association organized as a Colorado not-for-profit corporation for the purposes of maintaining and preserving common property of the Association. The Association, which is located in Breckenridge, Colorado, was incorporated on April 20, 2007. The Association began operation on June 1, 2009.

At December 31, 2019, the Association consisted of 239 units, which included 229 timeshare units, 3 wholly owned units, and 6 commercial units.

**2. Summary of Significant Accounting Policies**

**A. Fund Accounting**

The Association uses fund accounting, which requires that funds be classified separately for accounting and reporting purposes.

As of December 31, 2019, the Association had the following funds:

Operating – Disbursements from this fund are generally at the discretion of the Board of Directors (the "Board") and the property manager.

Common Reserve – Disbursements from this fund generally may be made only for designated purposes.

Units Reserve – Disbursements from this fund are designated for the replacement of unit furniture.

A/C Reserve – This fund accounts for the Air Conditioning Remodeling project and related notes payable.

**B. Investment Income Allocation**

Interest income is recorded in the fund holding the underlying source of investment income.

**C. Recognition of Assets**

The Association recognizes as assets on its financial statements:

- (a) common personal property and;
- (b) common real property to which it has title and that it can dispose of for cash, while retaining the proceeds thereto.

These assets are recorded at costs and are depreciated using the straight-line method over estimated useful lives of five years.

**D. Basis of Accounting**

These financial statements have been prepared on the accrual basis of accounting which recognizes revenues when assessed or earned and expense when incurred.



**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**  
**(Continued)**

**2. Summary of Significant Accounting Policies (continued)**

**E. Cash and Cash Equivalents**

All checking and money market savings accounts are considered cash equivalents by the Association for the purpose of the Statements of Cash Flows since all funds are highly liquid with no stated maturities.

**F. Investments**

The Association has invested certain excess funds in certificates of deposit. Because these certificates of deposit are intended to fund Replacement Fund expenditures and may provide a ready source of cash when so required, these investments are classified as trading. Accordingly, these investments are reported on these financial statements at fair value, and all realized and unrealized gains and losses are included in current year earnings.

**G. Common Assessments**

Common assessments are the primary source of revenues for the Association. An annual budget, which is approved by the Board, is prepared to estimate the annual expenses of maintaining the Association's common elements. Members of the Association are assessed for their pro-rata share of these estimated expenses.

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, or, with the approval of the Board, transferred to the Replacement Funds.

**H. Due To/From Other Funds**

The Association has chosen to record all accounts receivable and accounts payable in the Operating Fund. In accordance with generally accepted accounting principles, the differences in the individual funds caused by the accounting policy results in interfund asset and liability accounts on the financial statements.

**I. Allowance for Uncollectible Accounts – Assessments**

The Association utilizes the allowance method of recognizing the future potential uncollectability of owner assessments receivable. This reserve is calculated based on the estimated percentage of potentially uncollectible accounts 90 or more days overdue. The Association's policy is to charge late fees to owner accounts that are 60 or more days overdue. For the year ended December 31, 2019, the Association incurred \$45,289 in bad debt expense and wrote off accounts totaling \$39,638 (net of recoveries totaling \$0). For the year ended December 31, 2018, the Association incurred \$71,422 in bad debt expense and wrote off accounts totaling \$38,191 (net of recoveries totaling \$0).

**J. Inventory**

Housekeeping supply inventory is valued at cost, which approximates market, using the first-in/first-out(FIFO) method. The cost of inventory is recorded as an expense when consumed rather than when purchased.

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**  
**(Continued)**

**2. Summary of Significant Accounting Policies (continued)**

**K. 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 amount 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.

**L. Deferred Assessment Revenue**

Deferred revenue represents prepaid assessments, and is composed of payments received in advance of the assessment billing of the next fiscal year.

**M. Subsequent Events**

Management has evaluated subsequent events through April 30, 2020, the date these financial statements were available to be issued.

**3. 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.

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 2016 by the Internal Revenue Service and for tax years prior to 2015 by the Colorado Department of Revenue.

**4. Investments**

The Association's investments were comprised of the following certificates of deposit at December 31, 2019 and 2018, respectively:

	<u>12/31/19</u>	<u>12/31/18</u>
Certificates of deposit, maturing within one year, bearing interest at 1.000% - 1.750%% per annum	\$ 491,288	\$ 562,484
Certificates of deposit, maturing in more than year, bearing interest at 1.050% - 2.200% per annum	1,288,248	256,750
Certificates of deposit linked to the Standard and Poors 500 index, maturing on January 6, 2022	<u>106,243</u>	<u>102,044</u>
Total Investments	<u>\$ 1,885,779</u>	<u>921,278</u>

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**  
**(Continued)**

**4. Investments (continued)**

Included in the Association's investment income for the fiscal years ending December 31, 2019 and 2018 are unrealized gains (losses) totaling \$54,501 and (\$10,057), respectively, with respect to investments held at December 31, 2019 and 2018.

**5. Fixed Assets**

Fixed assets are summarized below:

<u>Description</u>	<u>12/31/19</u>	<u>12/31/18</u>
Equipment	\$ 206,265	\$ 206,265
Buildings	-	-
Vehicles	-	-
Less: Accumulated depreciation	(180,801)	(150,180)
<b>Net Fixed Assets</b>	<u>\$ 25,464</u>	<u>\$ 56,085</u>

Depreciation expense is computed on the straight-line basis and was \$30,620 and \$35,659 for the years ended December 31, 2019 and 2018.

**6. Promissory Note – Air Conditioning Project**

During 2013, the Association began a major remodeling project installing air conditioners in each unit. On May 23, 2013 the Association obtained a multiple advance term promissory note for the project, up to the amount of \$1,375,920. The loan bears interest at an annual fixed rate of five percent. The note matures on March 1, 2020. The note is collateralized by a security agreement, the Association's deposit accounts, and a collateral assignment of assessments. The outstanding principal balances at December 31, 2019 and 2018 were \$115,201 and \$315,201, respectively. Future debt service requirements are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	115,201	1,456	116,657
<b>Total</b>	<u>\$ 115,201</u>	<u>1,456</u>	<u>116,657</u>

**7. Significant Agreements and Transactions**

On January 1, 2018, Peak 7, L.L.C. entered into a renegotiated agreement with the Association to purchase all inventory units from the Association (which may be obtained as a result of foreclosure proceedings to collect past due assessments) for the consideration of payment of Association past dues, transfer costs, and any Association dues until resale and otherwise in accordance with the term and conditions of the agreement. This agreement may be terminated by either party by giving ninety days advance written notice. During the years ended December 31, 2019 and 2018 the Association did not receive any amount from Peak 7 L.L.C for the purchase of inventory units. At December 31, 2019 and 2018, the Association did not own any inventory units.

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**  
**(Continued)**

**7. Significant Agreements and Transactions (continued)**

Peak 7 L.L.C. pays assessments relating to its owned unit weeks throughout the year. The Association earned \$523,274 of 2019 revenue from Peak 7 L.L.C through assessments. Peak 7 L.L.C's assessments excluded cleaning fees of \$102,805 related to services not incurred in unoccupied units. The Association earned 5% of its total 2019 revenue from Peak 7 L.L.C.

Effective January 1, 2010, the Association entered into an agreement with Breckenridge Grand Vacations ("Manager") which is owned and operated by the Peak 8 Properties, L.L.C., for management, accounting, and reservation services. The management, accounting, and reservation fees increase by five percent annually throughout the term of this agreement unless otherwise negotiated. The initial term of the agreement is for ten years, and elapsed on December 31, 2019. After the initial term, the agreement automatically renews for three year periods, under the same terms and conditions as the original agreement, unless cancelled by either party. This agreement may be terminated by the Association for Cause, as defined in the agreement. Breckenridge Grand Vacations may resign as manager with or without Cause. However, Breckenridge Grand Vacations cannot resign until the Association obtains a substitute managing agent or until 180 days have elapsed from the resignation notification date.

During the fiscal year ended December 31, 2019, the Association incurred various expenses that were payable to Breckenridge Grand Vacations and Peak 8 Properties, L.L.C. (collectively referred to as "Management Companies"). The following is a schedule of transactions between the Association and the Management Companies for the years ended December 31, 2019 and 2018 respectively:

	<u>2019</u>	<u>2018</u>
Accounting fees and I.T.	\$ 63,893	\$ 60,850
Front desk and reservation fees	1,015,008	966,674
HR fees	211,892	201,801
Maintenance	1,026,985	930,748
Management fees	319,926	304,691
Other	219,480	200,634
Spa concierge	33,698	-
Activities	83,751	-
Cleaning	2,313,594	2,346,355
Security	144,920	141,385
<b>Total Expenses</b>	<u>\$ 5,433,147</u>	<u>\$ 5,153,138</u>

Approximately 59% of the Association's total 2019 expenses were related to services provided by related parties. The net amount that the Association owed to related parties was \$626,189 and \$523,121 at December 31, 2019 and 2018, respectively.

The Association is a member of the Breckenridge Mountain Master Association (the "Master Association"). The Association paid dues of \$62,936 and \$59,783 during 2019 and 2018, and had a prepaid balance of \$39,434 and \$34,713 at December 31, 2019 and 2018, respectively. The purpose of the Master Association is to maintain all common grounds and to govern the community in accordance with the provisions of its legal documents.

On October 1, 2012, the Association entered into an agreement with Concord Servicing Corporation to perform billing of assessments. The initial term began in October 2012 and is automatically renewed for 12 month terms until written notice of termination. The fee may increase annually by 1.5 times the increase in Consumer Price Index. For the years ending December 31, 2019 and 2018, the Association paid \$58,690 and \$52,883, respectively for services provided by Concord Servicing Corporation.

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2019**  
**(Continued)**

**8. Future Major Repairs and Replacements**

The Association's governing documents require that funds be accumulated for future repairs, replacements and maintenance. Accumulated funds are held in separate money market accounts and are generally not available for expenses for normal operations.

The Association has an external reserve study performed every 5 years to update estimates for future repairs and replacements and maintenance. In addition to the formal study Management also performs an annual internal inspection to update these estimates.

During the year ended December 31, 2019, management performed an internal update of the most recent Level I - Full Service Reserve Study, completed in 2016, to estimate the remaining useful lives and replacement costs of the components of common property. The Level I - Full Service Reserve Study ascertained replacement cost estimates from industry standard estimating manuals and based upon the engineering firm's experience with similar projects. The life expectancy of all components was ascertained from visual inspections made during the study.

The tables included in the unaudited Supplementary Information on Future Major Repairs and Replacements are based on the study. The information has been broken down into common reserve and unit reserve components of common property.

In accordance with industry guidelines, it is the Association's primary duty to maintain and preserve the common property of the owners. Therefore, it is the Association's responsibility to determine a method for funding the costs of future major repairs and maintenance by assessing owners when funds are needed or by anticipating costs over extended time periods, assessing owners for the anticipated costs, and accumulating funds in reserves to meet the future funding requirements. The Board has chosen to fund 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 Funds. Assessments of \$679,269 and \$796,549 for the Common Reserve Fund and Unit Reserve Fund, respectively, were reported during the year ended December 31, 2019. During the year ended December 31, 2018, the Association levied assessments of \$614,847 and \$732,059 for the Common Reserve Fund and Unit Reserve Fund, respectively.

Funds being accumulated in the Common Reserve and Unit Reserve Funds are based on estimated costs for repairs and replacements of common property components. Actual expenditures and investment incomes may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

**9. Concentration**

The Association's cash balances held with financial institutions were insured by the Federal Deposit Insurance Corporation (the "FDIC") at December 31, 2019 up to \$250,000 per depositor at each separately chartered FDIC-member financial institution. At December 31, 2019, the Association's uninsured cash balances totaled \$10,459.

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Operating Fund**  
**Budget (Non-GAAP Basis) to Actual Comparison**  
**With Reconciliation to GAAP Basis**  
**For the Year Ended December 31, 2019**  
**(With Comparative Actual Amounts for 2018)**

	2019		Variance Favorable (Unfavorable)	2018
	Budget (Unaudited)	Actual		Actual
<b>Revenues:</b>				
Assessments, net of discounts	7,630,663	7,621,065	(9,598)	7,064,771
Interest income	3,254	16,128	12,874	6,482
Late fee revenue	132,393	178,600	46,207	149,363
Exchange resort fee	-	70,925	70,925	120
Rental resort fee	72,915	79,037	6,122	976
Miscellaneous income	40,380	46,840	6,460	37,164
<b>Total Revenues</b>	<u>7,879,605</u>	<u>8,012,595</u>	<u>132,990</u>	<u>7,258,876</u>
<b>Expenses:</b>				
Accounting fees and I.T.	63,893	63,893	-	60,850
Assessment servicing fees	90,175	101,814	(11,639)	158,343
Activities	79,861	83,751	(3,890)	0
Bad debt expense	86,324	45,289	41,035	71,422
Common area amenities	166,055	211,508	(45,453)	117,276
Credit card fees	71,580	65,482	6,098	57,148
Elevator maintenance	55,000	138,580	(83,580)	61,473
Fire alarm maintenance	55,800	48,103	7,697	40,149
Front desk and reservation fees	1,015,009	1,015,008	1	966,675
Future equipment replacement	49,320	49,320	-	-
Hot tub and pool maintenance	44,350	52,476	(8,126)	44,638
HR Fees	211,892	211,892	-	201,802
Income tax expense	-	-	-	68
Insurance	121,208	122,392	(1,184)	109,839
Interest	-	-	-	189
Landscaping	20,000	18,185	1,815	22,865
Management fees	319,926	319,926	-	304,692
Master Association dues	62,348	62,936	(588)	59,783
Postage	-	-	-	429
Printing and key fobs	39,500	55,893	(16,393)	48,312
Professional fees	28,015	11,063	16,952	15,618
Property tax expense	738,801	675,804	62,997	646,444
Security	144,690	144,920	(230)	141,385
Short term rental tax	11,475	11,475	-	12,475
Snow removal	6,240	-	6,240	-
Sustainability	-	18,036	(18,036)	-
Television	36,248	28,395	7,853	32,362
Trash removal	31,112	47,582	(16,470)	38,231
Travel and entertainment	10,675	10,613	62	9,596
Truck lease	-	-	-	8,140
Cleaning	2,544,905	2,316,186	228,719	2,270,349
Unit maintenance	1,079,584	1,025,966	53,618	936,333
Unit telephones	44,236	41,207	3,029	45,796
Unit utilities	471,020	445,294	25,726	502,354
Water and sanitation	173,144	164,653	8,491	156,504
<b>Total Expenses</b>	<u>7,872,386</u>	<u>7,607,642</u>	<u>264,744</u>	<u>7,141,540</u>
<b>Excess (Deficiency) of Revenues Over Expenses - Budget Basis</b>		404,953		117,336
<b>Adjustments to Budget Basis:</b>				
Depreciation expense		(30,620)		(35,659)
<b>Total Adjustments</b>		<u>(30,620)</u>		<u>(35,659)</u>
<b>Excess (Deficiency) of Revenues Over Expenses - GAAP Basis</b>		<u>374,333</u>		<u>81,677</u>

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

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Supplementary Information on Future Major Repairs and Replacements**  
**Common Reserve Fund**  
**December 31, 2019**  
**(Unaudited)**

During the fiscal period ended December 31, 2019, management performed an internal update of the most recent Level I - Full Service Reserve Study, completed in 2011, to estimate the remaining useful lives and replacement costs of the components of common property. The Level I - Full Service Reserve Study ascertained replacement cost estimates from industry standard estimating manuals and based upon the engineering firm's experience with similar projects. The life expectancy of all components was ascertained from visual inspections made during the study.

The balance of the Common Reserve Fund at December 31, 2019, has not been designated by the Board for specific components of common property.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2019</u>
Amenity	0 - 20	1,071,209	
Aquatics	0 - 8	391,047	
Boilers	0 - 13	1,377,359	
Contingency	0 - 1	40,000	
Doors	1 - 19	2,185,655	
Electronics	0 - 3	47,451	
Elevators	0 - 25	1,559,482	
Flooring	0 - 18	829,250	
Furnishings	0 - 13	247,513	
Housekeeping	0 - 4	19,910	
HVAC	3 - 28	923,351	
IT	0 - 4	84,428	
Lighting	10 - 14	426,728	
Paint	0 - 6	493,859	
Roof	0 - 18	2,085,585	
Safety	1 - 13	99,348	
Siding	1	10,300	
Signs	10 - 21	255,576	
Theaters	0 - 14	443,346	
Trim	10 - 13	1,289,350	
Update	0 - 16	361,000	
Windows	4 - 13	4,640,184	
<b>Total</b>		<u><u>18,881,931</u></u>	<u><u>959,255</u></u>

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

**The Grand Lodge on Peak 7 Owners Association, Inc.**  
**(A Colorado Non-Profit Corporation)**  
**Supplementary Information on Future Major Repairs and Replacements**  
**Unit Reserve Fund**  
**December 31, 2019**  
**(Unaudited)**

During the fiscal period ended December 31, 2019, management performed an internal update of the most recent Level I - Full Service Reserve Study, completed in 2011, to estimate the remaining useful lives and replacement costs of the components of common property. The Level I - Full Service Reserve Study ascertained replacement cost estimates from industry standard estimating manuals and based upon the engineering firm's experience with similar projects. The life expectancy of all components was ascertained from visual inspections made during the study.

The balance of the Unit Reserve Fund at December 31, 2019, has not been designated by the Board for specific components of common property.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>	<u>Components of Fund Balance at December 31, 2019</u>
Appliance	4 - 19	683,547	
Contingency	0 - 1	30,000	
Door	15 - 19	1,990,868	
Doors	15 - 19	159,270	
Drywall	15 - 19	357,710	
Electrical	15 - 19	126,310	
Electronics	0 - 4	260,138	
Flooring	0 - 19	1,868,905	
Furnishings	0 - 19	7,117,661	
HVAC	6 - 19	2,749,898	
Insulation	15 - 19	81,872	
IT	1 - 11	373,560	
Labor	15 - 19	1,295,923	
Lighting	0 - 19	217,137	
Paint	0 - 19	424,906	
PAR	0 - 4	286,160	
Permit	15 - 19	158,812	
Plumbing	15 - 19	626,144	
Safety	3 - 7	140,240	
Trim	15 - 19	3,067,695	
Unit	1 - 3	51,338	
Walls	15 - 19	743,844	
<b>Total</b>		<u><u>22,811,938</u></u>	<u><u>1,275,873</u></u>

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