The Grand Lodge on Peak 7 Owners Association, Inc.

Financial Report

December 31, 2017

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
December 31, 2017

Table of Contents

McMahan and Associates, L.L.C.
Certified Public Accountants and Consultants

Chapel Square, Bldg C
245 Chapel Place, Suite 300
P.O. Box 5850, Avon, CO 81620

Web Site: www.mcmahancpa.com
Main Office: (970) 845-8800
Facsimile: (970) 845-8108
E-mail: mcmahan@mcmahancpa.com

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, 2017, 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, 2017, 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.

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, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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.
March 31, 2018

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2017
(With Comparative Totals for 2016)

	2017					2016
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Assets:						
Cash in banks	880,868	207,993	207,992	-	1,296,853	1,300,862
Investments	-	1,027,685	1,027,683	-	2,055,368	1,918,105
Member assessments receivable (net of allowance for doubtful accounts of $87,757 in 2017 and $46,640 in 2016)	109,564	-	-	-	109,564	101,817
Accrued interest receivable	1,503	-	-	-	1,503	1,563
Accounts receivable - Other	12,863	-	-	-	12,863	21,542
Unit supplies inventory	16,153	-	-	-	16,153	28,725
Prepaid expenses	62,139	-	-	-	62,139	87,468
Due from (to) other funds	421,469	(423,030)	118,640	(117,079)	-	-
Fixed assets (net of accumulated depreciation of $114,522 in 2017 and $106,998 in 2016)	91,743	-	-	-	91,743	136,298
Total Assets	1,596,302	812,648	1,354,315	(117,079)	3,646,186	3,596,380
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	203,362	-	-	-	203,362	127,082
Deferred assessment revenue	172,344	-	-	-	172,344	135,818
Property taxes payable	618,832	-	-	-	618,832	628,701
Income taxes payable	2,000	-	-	-	2,000	1,000
Due to Grand Timber Lodge	-	-	-	-	-	413
Due to (from) Management Companies	378,570	-	-	-	378,570	438,337
Notes payable	-	-	-	515,201	515,201	715,201
Leases payable	4,350	-	-	-	4,350	19,007
Total Liabilities	1,379,458	-	-	515,201	1,894,659	2,065,559
Fund Balances (Deficit)	216,844	812,648	1,354,315	(632,280)	1,751,527	1,530,821
Total Liabilities and Fund Balances (Deficit)	1,596,302	812,648	1,354,315	(117,079)	3,646,186	3,596,380

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, 2017
(With Comparative Totals for 2016)

	2017					2016
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Revenues:						
Assessments, net of discounts	6,818,884	559,732	679,596	221,172	8,279,384	7,800,155
Interest income	5,198	22,614	22,613	-	50,425	35,643
Late fee revenue	164,469	-	-	-	164,469	108,801
Miscellaneous income	44,365	-	-	-	44,365	51,849
Total Revenues	7,032,916	582,346	702,209	221,172	8,538,643	7,996,448
Expenses:						
Accounting fees and I.T.	57,953	-	-	-	57,953	55,193
Assessment servicing fees	91,612	-	-	-	91,612	91,846
Bad debt expense	76,535	-	-	-	76,535	55,513
Common area amenities	108,158	-	-	-	108,158	86,701
Common area utilities	104	-	-	-	104	-
Credit card fees	57,727	-	-	-	57,727	53,230
Depreciation	34,181	-	-	-	34,181	31,169
Elevator maintenance	54,720	-	-	-	54,720	49,629
Fire alarm maintenance	32,461	-	-	-	32,461	27,929
Front desk and reservation fees	920,643	-	-	-	920,643	876,803
Hot tub and pool maintenance	47,358	-	-	-	47,358	51,962
HR fees	192,192	-	-	-	192,192	183,040
Income tax expense	6,077	-	-	-	6,077	-
Insurance	113,126	-	-	-	113,126	122,160
Interest	577	-	-	28,619	29,196	39,917
Landscaping	18,250	-	-	-	18,250	20,065
Loss on sale of assets	1,467	-	-	-	1,467	-
Management fees	290,182	-	-	-	290,182	276,364
Master Association dues	59,058	-	-	-	59,058	66,089
Printing and key fobs	52,163	-	-	-	52,163	41,594
Professional fees	13,534	-	-	-	13,534	14,490
Property tax expense	615,668	-	-	-	615,668	625,406
Security	133,292	-	-	-	133,292	120,922
Short term rental tax	11,475	-	-	-	11,475	11,475
Snow removal	5,228	-	-	-	5,228	2,209
Television	31,154	-	-	-	31,154	19,577
Trash removal	46,725	-	-	-	46,725	45,106
Travel and entertainment	9,895	-	-	-	9,895	7,400
Truck lease	8,140	-	-	-	8,140	8,140
Cleaning	2,161,856	-	-	-	2,161,856	1,974,430
Unit maintenance	949,163	-	-	-	949,163	909,876
Unit telephones	36,551	-	-	-	36,551	37,841
Unit utilities	496,771	-	-	-	496,771	529,252
Water and sanitation	139,353	-	-	-	139,353	138,128
Common reserve - Building exterior	-	14,886	-	-	14,886	-
Common reserve - Common area finishes	-	648,328	-	-	648,328	456,050
Long-term reserve - Other	-	150	-	-	150	42,246
Unit reserve - Furniture	-	-	365,904	-	365,904	257,350
Unit reserve - Appliances	-	-	344,403	-	344,403	55,308
Unit reserve - Inventory replacement	-	-	42,298	-	42,298	-
Total Expenses	6,873,349	663,364	752,605	28,619	8,317,937	7,384,410
Excess (Deficiency) of Revenues Over Expenses	159,567	(81,018)	(50,396)	192,553	220,706	612,038
Beginning Fund Balances (Deficit)	57,277	893,666	1,404,711	(824,833)	1,530,821	918,783
Ending Fund Balances (Deficit)	216,844	812,648	1,354,315	(632,280)	1,751,527	1,530,821

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, 2017
(With Comparative Totals for 2016)

	2017					2016
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Cash Flows From Operating Activities:						
Cash received from assessments	6,971,015	559,732	679,596	221,172	8,431,515	7,902,466
Interest received	5,258	9,487	9,487	-	24,232	47,091
Cash received from other sources	44,365	-	-	-	44,365	51,849
Cash transfers from (to) other funds	(434,147)	381,984	44,716	7,447	-	-
Cash payments for goods and services	(6,111,583)	(663,364)	(752,605)	-	(7,527,552)	(6,650,480)
Cash paid for property taxes	(630,614)	-	-	-	(630,614)	(610,688)
Interest paid	(577)	-	-	(28,619)	(29,196)	(39,917)
Net Cash Provided (Used) By Operating Activities	(156,283)	287,839	(18,806)	200,000	312,750	700,321
Cash Flows From Investing Activities:						
Purchase of investments	-	(490,000)	(111,010)	-	(601,010)	(43,935)
Sale of investments	-	245,000	245,000	-	490,000	-
Transfer of investment allocation	-	(91,815)	91,815	-	-	-
Purchase of equipment	8,908	-	-	-	8,908	(79,917)
Net Cash Provided (Used) by Investing Activities	8,908	(336,815)	225,805	-	(102,102)	(123,852)
Cash Flows From Financing Activities:						
Principal paid on notes payable	-	-	-	(200,000)	(200,000)	(200,000)
Capital lease principal payments	(14,657)	-	-	-	(14,657)	(8,866)
Net Cash Provided (Used) by Financing Activities	(14,657)	-	-	(200,000)	(214,657)	(208,866)
Net Increase (Decrease) in Cash and Cash Equivalents	(162,032)	(48,976)	206,999	-	(4,009)	367,603
Cash and Cash Equivalents - Beginning of Year	1,042,900	256,969	993	-	1,300,862	933,259
Cash and Cash Equivalents - End of Year	880,868	207,993	207,992	-	1,296,853	1,300,862
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:						
Excess (deficiency) of revenues over expenses	159,567	(81,018)	(50,396)	192,553	220,706	612,038
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:						
Depreciation	34,181	-	-	-	34,181	31,169
Unrealized (gain) loss on investments	-	(13,127)	(13,126)	-	(26,253)	12,745
Loss (gain) on disposal of assets	1,467	-	-	-	1,467	-
(Increase) decrease in assessments receivable	(48,864)	-	-	-	(48,864)	(8,554)
Increase (decrease) in allowance for doubtful accounts	41,117	-	-	-	41,117	2,702
(Increase) decrease in accrued interest	60	-	-	-	60	(1,297)
(Increase) decrease in other receivables	8,679	-	-	-	8,679	(11,175)
(Increase) decrease in inventory	12,572	-	-	-	12,572	3,175
(Increase) decrease in prepaid expenses	25,328	-	-	-	25,328	3,125
Cash transfers from (to) other funds	(434,147)	381,984	44,716	7,447	-	-
Increase (decrease) in accounts payable	76,280	-	-	-	76,280	(12,906)
Increase (decrease) in deferred assessment revenue	36,526	-	-	-	36,526	2,064
Increase (decrease) in property taxes payable	(9,869)	-	-	-	(9,869)	13,718
Increase (decrease) in due to related parties	(59,767)	-	-	-	(59,767)	54,895
Increase (decrease) in due to other associations	(413)	-	-	-	(413)	(2,378)
Increase (decrease) in income taxes payable	1,000	-	-	-	1,000	1,000
Total Adjustments	(315,850)	368,857	31,590	7,447	92,044	88,283
Net Cash Provided (Used) By Operating Activities	(156,283)	287,839	(18,806)	200,000	312,750	700,321

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

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, 2017, 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, 2017, 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.

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, 2017, the Association incurred $76,535 in bad debt expense and wrote off accounts totaling $37,810 (net of recoveries totaling $2,392). For the year ended December 31, 2016, the Association incurred $55,513 in bad debt expense and wrote off accounts totaling $52,811 (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.

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 March 31, 2018, 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 2013 by the Internal Revenue Service and for tax years prior to 2013 by the Colorado Department of Revenue.

4. Investments

The Association's investments were compromised of the following certificates of deposit at December 31, 2017 and 2016, respectively:

	12/31/17	**12/31/16**
Money market sweep	$ -	$ 279,711
Certificates of deposit, maturing within one year, bearing interest at 1.000% - 1.750%% per annum	1,224,874	490,000
Certificates of deposit, maturing in more than year, bearing interest at 1.050% - 2.200% per annum	564,869	910,894
Certificates of deposit linked to the Standard and Poors 500 index, maturing on January 6, 2022	265,625	237,500
Total Investments	$ 2,055,368	1,918,105

4. Investments (continued)

Included in the Association's investment income for the fiscal years ending December 31, 2017 and 2016 are unrealized (gains) losses totaling ($26,253) and ($12,745), respectively, with respect to investments held at December 31, 2017 and 2016.

5. Fixed Assets

Fixed assets are summarized below:

Description	12/31/17	12/31/16
Equipment	$ 206,265	$ 243,296
Less: Accumulated depreciation	(114,522)	(106,998)
Net Fixed Assets	$ 91,743	$ 136,298

Depreciation expense is computed on the straight-line basis and was $34,181 and $31,169 for the years ended December 31, 2017 and 2016.

6. Capital Lease

In 2014, the Association entered into a five year agreement to acquire an additional trash compactor. The Associations retains ownership of the trash compactor at the end of the lease term, ending December 2018. During 2017, the Association renegotiated the terms of the lease based upon a reassessed value of the asset. The asset was disposed and recorded at the refinanced value. Interest accrues at a rate of 4.34 percent per annum. Interest expense for this lease was 577 and 1,034 for the years ended December 31, 2017, and 2016, respectively. Future debt service requirements are as follows:

Fiscal Year Ended	Principal	Interest	Total
2018	4,350	189	4,539
Total	$ 4,350	189	4,539

Depreciation expense related to the equipment acquired via the capital lease totaled $2,956 and $8,886 for the years ended December 31, 2017 and 2016, respectively.

The net book value of the asset acquired under this lease as of December 31, 2017 is as follows:

	12/31/17	12/31/16
Historical cost	$ 7,390	$ 44,428
Less: Accumulated depreciation	(2,956)	(26,656)
Net book value	$ 4,434	$ 17,772

7. 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, 2017 and 2016 were $515,201 and $715,201, respectively. Future debt service requirements are as follows:

Fiscal Year Ended	Principal	Interest	Total
2018	200,000	18,479	218,479
2019	200,000	8,340	208,340
2020	115,201	1,456	116,657
Total	$ 515,201	28,275	543,476

8. Significant Agreements and Transactions

On January 1, 2010, Peak 7 L.L.C. entered into an agreement with the Association to purchase all inventory units from the Association (which may be obtained as a result of foreclosure proceeding to collect past due assessments) at an amount equal to 35% of the Net Listed Sales Price, as defined in the agreement. This agreement may be terminated by either party by giving ninety days advance written notice. The agreement was renegotiated on January 1, 2018 (see Note 12). During the years ended December 31, 2017 and 2016 the Association did not receive any amount from Peak 7 L.L.C for the purchase of inventory units. At December 31, 2017 and 2016, the Association did not own any inventory units.

Peak 7 L.L.C. pays assessments relating to its owned unit weeks throughout the year. The Association earned $646,534 of 2017 revenue from Peak 7 L.L.C through assessments. Peak 7 L.L.C's assessments excluded cleaning fees of $94,843 related to services not incurred in unoccupied units. The Association earned 8% of its total 2017 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 elapses 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.

8. Significant Agreements and Transactions (continued)

During the fiscal year ended December 31, 2017, 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, 2017 and 2016 respectively:

	2017	2016
Accounting fees and I.T.	$ 57,953	$ 55,193
Front desk and reservation fees	920,643	876,802
HR fees	192,192	183,040
Maintenance	949,163	909,876
Management fees	290,182	276,364
Other	138,293	272,807
Cleaning	2,161,856	1,974,430
Security	133,292	120,922
Total Expenses	$ 4,843,574	$ 4,669,434

Approximately 60% of the Association's total 2017 expenses were related to services provided by related parties. The net amount that the Association owed to related parties was $378,570 and 438,337 at December 31, 2017and 2016, respectively.

The Association is a member of the Breckenridge Mountain Master Association (the "Master Association"). The Association paid dues of $59,058 and $66,089 during 2017 and 2016, and had a prepaid balance of $34,988 and $29,399 at December 31, 2017 and 2016, 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, 2017 and 2016, the Association paid $51,265 and $55,438, respectively for services provided by Concord Servicing Corporation.

9. 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.

During the year ended December 31, 2017, 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 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.

9. Future Major Repairs and Replacements (continued.

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 $559,732 and $679,596 for the Common Reserve Fund and Unit Reserve Fund, respectively, were reported during the year ended December 31, 2017. During the year ended December 31, 2016, the Association levied assessments of $514,950and $635,096 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.

10. Concentration

The Association's cash balances held with financial institutions were insured by the Federal Deposit Insurance Corporation (the "FDIC") at December 31, 2017 up to $250,000 per depositor at each separately chartered FDIC-member financial institution. At December 31, 2017, the Association's uninsured cash balances totaled $272,217.

11. Operating Lease – Truck

During 2014, Grand Lodge on Peak 7 entered into an operating lease agreement for a truck with Peak 7, L.L.C. The lease requires monthly payment of $678.32 beginning on January 1, 2014 through December 31, 2018. During the years ended December 31, 2017 and December 31, 2016, the Association paid $8,140 and $8,140, respectively, in accordance with the terms of the lease.

12. Subsequent Event

On January 1, 2018, Peak 8 Properties, 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.

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, 2017
(With Comparative Actual Amounts for 2016)

	2017			2016
	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)	Actual
Revenues:				
Assessments, net of discounts	6,840,212	6,818,884	(21,328)	6,428,937
Interest income	234	5,198	4,964	2,263
Late fee revenue	111,348	164,469	53,121	108,801
Miscellaneous income	36,000	44,365	8,365	51,849
Total Revenues	6,987,794	7,032,916	45,122	6,591,850
Expenses:				
Accounting fees and I.T.	57,953	57,953	-	55,193
Assessment servicing fees	91,800	91,612	188	91,846
Bad debt expense	49,856	76,535	(26,679)	55,513
Common area amenities	133,112	108,158	24,954	86,701
Common area utilities	-	104	(104)	-
Credit card fees	51,865	57,727	(5,862)	53,230
Elevator maintenance	50,400	54,720	(4,320)	49,629
Fire alarm maintenance	29,380	32,461	(3,081)	27,929
Front desk and reservation fees	920,643	920,643	-	876,803
Hot tub and pool maintenance	53,323	47,358	5,965	51,962
HR Fees	192,192	192,192	-	183,040
Income tax expense	-	6,077	(6,077)	-
Insurance	128,007	113,126	14,881	122,160
Interest	639	577	62	1,034
Landscaping	16,800	18,250	(1,450)	20,065
Management fees	290,182	290,182	-	276,364
Master Association dues	66,742	59,058	7,684	66,089
Printing and key fobs	33,387	52,163	(18,776)	41,594
Professional fees	20,824	13,534	7,290	14,490
Property tax expense	776,046	615,668	160,378	625,406
Security	115,952	133,292	(17,340)	120,922
Short term rental tax	11,475	11,475	-	11,475
Snow removal	6,000	5,228	772	2,209
Television	25,980	31,154	(5,174)	19,577
Trash removal	49,819	46,725	3,094	45,106
Travel and entertainment	8,050	9,895	(1,845)	7,400
Truck lease	8,140	8,140	-	8,140
Cleaning	2,121,610	2,161,856	(40,246)	1,974,430
Unit maintenance	955,618	949,163	6,455	909,876
Unit telephones	43,200	36,551	6,649	37,841
Unit utilities	500,331	496,771	3,560	529,252
Water and sanitation	151,251	139,353	11,898	138,128
Total Expenses	6,960,577	6,837,701	122,876	6,503,404
Excess (Deficiency) of Revenues Over Expenses - Budget Basis		195,215		88,446
Adjustments to Budget Basis:				
Gain (Loss) on disposal of assets		(1,467)		-
Depreciation expense		(34,181)		(31,169)
Total Adjustments		(35,648)		(31,169)
Excess (Deficiency) of Revenues Over Expenses - GAAP Basis		159,567		57,277

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, 2017
(Unaudited)

During the fiscal period ended December 31, 2017, 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, 2017, 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.

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	Components of Fund Balance at December 31, 2017
Amenity	0 - 24	694,111	
Aquatics	0 - 6	239,933	
Boilers	0 - 14	1,672,778	
Common Component	0	-	
Contingency	0	-	
Doors	2 - 20	1,915,097	
Electronics	0 - 4	40,503	
Elevators	0 - 26	1,578,905	
Flooring	0 - 18	916,498	
Furnishings	1 - 14	129,845	
HVAC	1 - 20	1,303,003	
IT	0 - 1	47,116	
Lighting	11- 15	447,710	
Paint	1 - 7	329,833	
Roof	0 - 19	2,117,316	
Safety	1 - 14	113,870	
Siding	2	10,740	
Signs	11 - 22	266,835	
Theaters	0 - 15	340,621	
Trim	11 - 14	88,602	
Update	1 - 17	423,572	
Windows	0 - 14	4,879,123	
Total		17,556,011	812,648

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, 2017
(Unaudited)

During the fiscal period ended December 31, 2017, 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, 2017, 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.

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs	Components of Fund Balance at December 31, 2017
Appliance	0 - 23	753,286	
Contingency	0	-	
Drywall	'16 - 25	374,967	
Electrical	16 - 25	132,406	
Electronics	1	23,359	
Flooring	1 - 25	1,793,711	
Furnishings	0 - 25	6,638,257	
HVAC	7 - 25	2,706,452	
Insulation	16 - 25	85,821	
IT	0 - 12	280,284	
Labor	16 - 25	1,358,444	
Lighting	0 - 25	236,505	
Paint	1 - 25	432,364	
PAR	0 - 3	251,978	
Permit	16 - 23	91,200	
Plumbing	16 - 25	656,353	
Safety	4 - 8	78,243	
Trim	16 - 20	3,198,211	
Unit	2- 4	28,635	
Walls	16 - 25	779,734	
Total		19,900,210	1,354,315

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