The Grand Lodge on Peak 7 Owners Association, Inc.

Financial Report

December 31, 2018 and 2017

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
December 31, 2018

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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, 2018, 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, 2018, 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.

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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, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 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, 2019

The Grand Lodge on Peak 7 Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2018
(With Comparative Totals for 2017)

	2018					2017
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Assets:						
Cash in banks	1,099,565	778,866	778,866	-	2,657,297	1,296,853
Investments	-	460,639	460,639	-	921,278	2,055,368
Member assessments receivable (net of allowance for doubtful accounts of $120,988 in 2018 and $87,757 in 2017)	171,971	-	-	-	171,971	109,564
Accrued interest receivable	176	-	-	-	176	1,503
Accounts receivable - Other	16,775	-	-	-	16,775	12,863
Due from Gold Point Condominium	(404)	-	-	-	(404)	-
Unit supplies inventory	25,682	-	-	-	25,682	16,153
Prepaid expenses	64,414	-	-	-	64,414	62,139
Due from (to) other funds	340,090	(452,079)	226,463	(114,474)	-	-
Fixed assets (net of accumulated depreciation of $150,180 in 2018 and $114,522 in 2017)	56,085	-	-	-	56,085	91,743
Total Assets	1,774,354	787,426	1,465,968	(114,474)	3,913,274	3,646,186
Liabilities and Fund Balances:						
Liabilities:						
Accounts payable	139,704	-	-	-	139,704	203,362
Accounts payable - Other	452	-	-	-	452	-
Deferred assessment revenue	165,435	-	-	-	165,435	172,344
Property taxes payable	646,444	-	-	-	646,444	618,832
Income taxes payable	3,000	-	-	-	3,000	2,000
Due to Grand Timber Lodge	(2,323)	-	-	-	(2,323)	-
Due to (from) Management Companies	523,121	-	-	-	523,121	378,570
Notes payable	-	-	-	315,201	315,201	515,201
Leases payable	-	-	-	-	-	4,350
Total Liabilities	1,475,833	-	-	315,201	1,791,034	1,894,659
Fund Balances (Deficit)	298,521	787,426	1,465,968	(429,675)	2,122,240	1,751,527
Total Liabilities and Fund Balances (Deficit)	1,774,354	787,426	1,465,968	(114,474)	3,913,274	3,646,186

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, 2018
(With Comparative Totals for 2017)

	2018					2017
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Revenues:						
Assessments, net of discounts	7,064,771	614,847	732,059	221,172	8,632,849	8,279,384
Interest income	6,482	7,807	7,807	-	22,096	50,425
Late fee revenue	149,363	-	-	-	149,363	164,469
Exchange resort fee	120	-	-	-	120	-
Rental resort fee	976	-	-	-	976	-
Miscellaneous income	37,164	-	-	-	37,164	44,365
Total Revenues	7,258,876	622,654	739,866	221,172	8,842,568	8,538,643
Expenses:						
Accounting fees and I.T.	60,850	-	-	-	60,850	57,953
Assessment servicing fees	158,343	-	-	-	158,343	91,612
Bad debt expense	71,422	-	-	-	71,422	76,535
Common area amenities	117,276	-	-	-	117,276	108,158
Common area utilities	-	-	-	-	-	104
Credit card fees	57,148	-	-	-	57,148	57,727
Depreciation	35,659	-	-	-	35,659	34,181
Elevator maintenance	61,473	-	-	-	61,473	54,720
Fire alarm maintenance	40,149	-	-	-	40,149	32,461
Front desk and reservation fees	966,675	-	-	-	966,675	920,643
Hot tub and pool maintenance	44,638	-	-	-	44,638	47,358
HR fees	201,802	-	-	-	201,802	192,192
Income tax expense	68	-	-	-	68	6,077
Insurance	109,839	-	-	-	109,839	113,126
Interest	189	-	-	18,567	18,756	29,196
Landscaping	22,865	-	-	-	22,865	18,250
Loss on sale of assets	-	-	-	-	-	1,467
Management fees	304,692	-	-	-	304,692	290,182
Master Association dues	59,783	-	-	-	59,783	59,058
Postage	429	-	-	-	429	-
Printing and key fobs	48,312	-	-	-	48,312	52,163
Professional fees	15,618	-	-	-	15,618	13,534
Property tax expense	646,444	-	-	-	646,444	615,668
Security	141,385	-	-	-	141,385	133,292
Short term rental tax	12,475	-	-	-	12,475	11,475
Snow removal	-	-	-	-	-	5,228
Television	32,362	-	-	-	32,362	31,154
Trash removal	38,231	-	-	-	38,231	46,725
Travel and entertainment	9,596	-	-	-	9,596	9,895
Truck lease	8,140	-	-	-	8,140	8,140
Cleaning	2,270,349	-	-	-	2,270,349	2,161,856
Unit maintenance	936,333	-	-	-	936,333	949,163
Unit telephones	45,796	-	-	-	45,796	36,551
Unit utilities	502,354	-	-	-	502,354	496,771
Water and sanitation	156,504	-	-	-	156,504	139,353
Common reserve - Building exterior	-	30,105	-	-	30,105	14,886
Common reserve - Common area finishes	-	584,682	-	-	584,682	648,328
Long-term reserve - Other	-	33,089	-	-	33,089	150
Unit reserve - Furniture	-	-	566,828	-	566,828	365,904
Unit reserve - Appliances	-	-	45,734	-	45,734	344,403
Unit reserve - Inventory replacement	-	-	15,651	-	15,651	42,298
Total Expenses	7,177,199	647,876	628,213	18,567	8,471,855	8,317,937
Excess (Deficiency) of Revenues Over Expenses	81,677	(25,222)	111,653	202,605	370,713	220,706
Beginning Fund Balances (Deficit)	216,844	812,648	1,354,315	(632,280)	1,751,527	1,530,821
Ending Fund Balances (Deficit)	298,521	787,426	1,465,968	(429,675)	2,122,240	1,751,527

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, 2018
(With Comparative Totals for 2017)

	2018					2017
	Operating Fund	Common Reserve Fund	Unit Reserve Fund	A/C Reserve Fund	Total	Total
Cash Flows From Operating Activities:						
Cash received from assessments	7,112,683	614,847	732,059	221,172	8,680,761	8,431,515
Interest received	7,809	12,835	12,836	-	33,480	24,232
Cash received from other sources	(1,027)	-	-	-	(1,027)	44,365
Cash transfers from (to) other funds	81,379	29,049	(107,823)	(2,605)	-	-
Cash payments for goods and services	(6,359,708)	(647,876)	(628,213)	-	(7,635,797)	(7,527,552)
Cash paid for property taxes	(617,900)	-	-	-	(617,900)	(630,614)
Interest paid	(189)	-	-	(18,567)	(18,756)	(29,196)
Net Cash Provided (Used) By Operating Activities	223,047	8,855	8,859	200,000	440,761	312,750
Cash Flows From Investing Activities:						
Purchase of investments	-	-	-	-	-	(601,010)
Sale of investments	-	612,500	612,500	-	1,225,000	490,000
Transfer of investment allocation	-	(50,482)	(50,485)	-	(100,967)	-
Purchase of equipment	-	-	-	-	-	8,908
Net Cash Provided (Used) by Investing Activities	-	562,018	562,015	-	1,124,033	(102,102)
Cash Flows From Financing Activities:						
Principal paid on notes payable	-	-	-	(200,000)	(200,000)	(200,000)
Capital lease principal payments	(4,350)	-	-	-	(4,350)	(14,657)
Net Cash Provided (Used) by Financing Activities	(4,350)	-	-	(200,000)	(204,350)	(214,657)
Net Increase (Decrease) in Cash and Cash Equivalents	218,697	570,873	570,874	-	1,360,444	(4,009)
Cash and Cash Equivalents - Beginning of Year	880,868	207,993	207,992	-	1,296,853	1,300,862
Cash and Cash Equivalents - End of Year	1,099,565	778,866	778,866	-	2,657,297	1,296,853
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:						
Excess (deficiency) of revenues over expenses	81,677	(25,222)	111,653	202,605	370,713	220,706
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:						
Depreciation	35,659	-	-	-	35,659	34,181
Unrealized (gain) loss on investments	-	5,028	5,029	-	10,057	(26,253)
Loss (gain) on disposal of assets	-	-	-	-	-	1,467
(Increase) decrease in assessments receivable	(95,638)	-	-	-	(95,638)	(48,864)
Increase (decrease) in allowance for doubtful accounts	33,231	-	-	-	33,231	41,117
(Increase) decrease in accrued interest	1,327	-	-	-	1,327	60
(Increase) decrease in other receivables	(3,912)	-	-	-	(3,912)	8,679
(Increase) decrease in inventory	(9,529)	-	-	-	(9,529)	12,572
(Increase) decrease in prepaid expenses	(2,275)	-	-	-	(2,275)	25,328
Cash transfers from (to) other funds	81,379	29,049	(107,823)	(2,605)	-	-
Increase (decrease) in accounts payable	(63,659)	-	-	-	(63,659)	76,280
Increase (decrease) in other payables	452	-	-	-	452	-
Increase (decrease) in deferred assessment revenue	(6,909)	-	-	-	(6,909)	36,526
Increase (decrease) in property taxes payable	27,612	-	-	-	27,612	(9,869)
Increase (decrease) in due to related parties	144,551	-	-	-	144,551	(59,767)
Increase (decrease) in due to other associations	(1,919)	-	-	-	(1,919)	(413)
Increase (decrease) in income taxes payable	1,000	-	-	-	1,000	1,000
Total Adjustments	141,370	34,077	(102,794)	(2,605)	70,048	92,044
Net Cash Provided (Used) By Operating Activities	223,047	8,855	8,859	200,000	440,761	312,750

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, 2018

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, 2018, 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, 2018, 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, 2018, the Association incurred $71,422 in bad debt expense and wrote off accounts totaling $38,191 (net of recoveries totaling $0). 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).

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 **April 30, 2019**, 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 2014 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, 2018 and 2017, respectively:

	12/31/18	12/31/17
Certificates of deposit, maturing within one year, bearing interest at 1.000% - 1.750%% per annum	$ 562,484	$ 1,224,874
Certificates of deposit, maturing in more than year, bearing interest at 1.050% - 2.200% per annum	256,750	564,869
Certificates of deposit linked to the Standard and Poors 500 index, maturing on January 6, 2022	102,044	265,625
Total Investments	$ 921,278	2,055,368

4. Investments (continued)

Included in the Association's investment income for the fiscal years ending December 31, 2018 and 2017 are unrealized gains (losses) totaling ($10,057) and $26,253, respectively, with respect to investments held at December 31, 2018 and 2017.

5. Fixed Assets

Fixed assets are summarized below:

Description	12/31/18	12/31/17
Equipment	$ 206,265	$ 206,265
Less: Accumulated depreciation	(150,180)	(114,522)
Net Fixed Assets	$ 56,085	$ 91,743

Depreciation expense is computed on the straight-line basis and was $35,659 and $34,181 for the years ended December 31, 2018 and 2017.

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 $189 and $364 for the years ended December 31, 2018, and 2017, respectively. As of December 31, 2018, the lease was paid in full.

Depreciation expense related to the equipment acquired via the capital lease totaled $4,434 and $2,956 for the years ended December 31, 2018 and 2017, respectively.

The net book value of the asset acquired under this lease as of December 31, 2018 is as follows:

	12/31/18	12/31/17
Historical cost	$ 7,390	$ 7,390
Less: Accumulated depreciation	(7,390)	(2,956)
Net book value	$ -	$ 4,434

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, 2018 and 2017 were $315,201 and $515,201, respectively. Future debt service requirements are as follows:

Fiscal Year Ended	Principal	Interest	Total
2019	200,000	8,340	208,340
2020	115,201	1,456	116,657
Total	$ 315,201	9,796	324,997

8. Significant Agreements and Transactions

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. During the years ended December 31, 2018 and 2017 the Association did not receive any amount from Peak 7 L.L.C for the purchase of inventory units. At December 31, 2018 and 2017, 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 $688,200 of 2018 revenue from Peak 7 L.L.C through assessments. Peak 7 L.L.C's assessments excluded cleaning fees of $125,393 related to services not incurred in unoccupied units. The Association earned 8% of its total 2018 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, 2018, 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, 2018 and 2017 respectively:

	2018	2017
Accounting fees and I.T.	$ 60,850	$ 57,953
Front desk and reservation fees	966,674	920,643
HR fees	201,801	192,192
Maintenance	930,748	949,163
Management fees	304,691	290,182
Other	200,634	138,293
Cleaning	2,346,355	2,161,856
Security	141,385	133,292
Total Expenses	$ 5,153,138	$ 4,843,574

Approximately 61% of the Association's total 2018 expenses were related to services provided by related parties. The net amount that the Association owed to related parties was $523,121 and $378,570 at December 31, 2018 and 2017, respectively.

The Association is a member of the Breckenridge Mountain Master Association (the "Master Association"). The Association paid dues of $59,783 and $59,058 during 2018 and 2017, and had a prepaid balance of $34,713 and $34,988 at December 31, 2018 and 2017, 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, 2018 and 2017, the Association paid $52,883 and $51,265, 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.

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, 2018, 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.

9. Future Major Repairs and Replacements (continued)

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 $614,847 and $732,059 for the Common Reserve Fund and Unit Reserve Fund, respectively, were reported during the year ended December 31, 2018. During the year ended December 31, 2017, the Association levied assessments of $559,732 and $679,596 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, 2018 up to $250,000 per depositor at each separately chartered FDIC-member financial institution. At December 31, 2018, the Association's uninsured cash balances totaled $289,564.

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, 2018 and December 31, 2017, the Association paid $8,140 and $8,140, respectively, in accordance with the terms of the lease.

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, 2018
(With Comparative Actual Amounts for 2017)

	2018			2017
	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)	Actual
Revenues:				
Assessments, net of discounts	7,148,730	7,064,771	(83,959)	6,818,884
Interest income	448	6,482	6,034	5,198
Late fee revenue	133,847	149,363	15,516	164,469
Exchange resort fee	-	120	120	-
Rental resort fee	-	976	976	-
Miscellaneous income	43,173	37,164	(6,009)	44,365
Total Revenues	7,326,198	7,258,876	(67,322)	7,032,916
Expenses:				
Accounting fees and I.T.	60,850	60,850	-	57,953
Assessment servicing fees	88,478	158,343	(69,865)	91,612
Bad debt expense	66,411	71,422	(5,011)	76,535
Common area amenities	111,944	117,276	(5,332)	108,158
Common area utilities	-	-	-	104
Credit card fees	54,142	57,148	(3,006)	57,727
Elevator maintenance	48,488	61,473	(12,985)	54,720
Fire alarm maintenance	50,880	40,149	10,731	32,461
Front desk and reservation fees	966,675	966,675	-	920,643
Hot tub and pool maintenance	52,244	44,638	7,606	47,358
HR Fees	201,802	201,802	-	192,192
Income tax expense	-	68	(68)	6,077
Insurance	128,835	109,839	18,996	113,126
Interest	189	189	-	577
Landscaping	16,595	22,865	(6,270)	18,250
Management fees	304,692	304,692	-	290,182
Master Association dues	68,514	59,783	8,731	59,058
Postage	-	429	(429)	-
Printing and key fobs	56,700	48,312	8,388	52,163
Professional fees	26,840	15,618	11,222	13,534
Property tax expense	694,529	646,444	48,085	615,668
Security	136,721	141,385	(4,664)	133,292
Short term rental tax	11,475	12,475	(1,000)	11,475
Snow removal	4,197	-	4,197	5,228
Television	30,000	32,362	(2,362)	31,154
Trash removal	51,462	38,231	13,231	46,725
Travel and entertainment	8,820	9,596	(776)	9,895
Truck lease	8,140	8,140	-	8,140
Cleaning	2,370,006	2,270,349	99,657	2,161,856
Unit maintenance	1,028,906	936,333	92,573	949,163
Unit telephones	35,376	45,796	(10,420)	36,551
Unit utilities	500,825	502,354	(1,529)	496,771
Water and sanitation	159,132	156,504	2,628	139,353
Total Expenses	7,343,868	7,141,540	202,328	6,837,701
Excess (Deficiency) of Revenues Over Expenses - Budget Basis		117,336		195,215
Adjustments to Budget Basis:				
Gain (Loss) on disposal of assets		-		(1,467)
Depreciation expense		(35,659)		(34,181)
Total Adjustments		(35,659)		(35,648)
Excess (Deficiency) of Revenues Over Expenses - GAAP Basis		81,677		159,567

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, 2018
(Unaudited)

During the fiscal period ended December 31, 2018, 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, 2018, 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, 2018
Amenity	0 - 21	1,088,268	
Aquatics	0 - 9	394,257	
Boilers	0 - 14	1,645,553	
Contingency	0 - 1	40,000	
Doors	2 - 20	2,060,156	
Electronics	0 - 4	48,163	
Elevators	1 - 26	1,537,605	
Flooring	0 - 19	1,072,131	
Furnishings	0 - 12	245,777	
Housekeeping	0 - 5	29,090	
HVAC	1 - 29	934,947	
IT	0 - 8	48,063	
Lighting	11- 15	439,531	
Paint	1 - 7	508,674	
Roof	0 - 19	2,143,702	
Safety	0 - 14	112,228	
Siding	2	10,609	
Signs	11 - 22	263,242	
Theaters	0 - 15	405,704	
Trim	11 - 14	1,328,030	
Update	1 - 17	371,830	
Windows	0 - 14	4,792,913	
Total		19,520,473	787,426

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, 2018
(Unaudited)

During the fiscal period ended December 31, 2018, 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, 2018, 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, 2018
Appliance	0 - 20	702,459	
Contingency	0 - 1	30,000	
Drywall	16 - 20	368,441	
Electrical	16 - 20	130,099	
Electronics	0 - 4	304,908	
Flooring	0 - 20	1,862,824	
Furnishings	0 - 20	7,210,629	
HVAC	7 - 20	2,832,393	
Insulation	16 - 20	84,327	
IT	0 - 12	378,573	
Labor	16 - 20	1,334,800	
Lighting	0 - 20	210,767	
Paint	1 - 250	423,097	
PAR	0 - 4	286,160	
Permit	16 - 20	163,576	
Plumbing	16 - 20	644,927	
Safety	4 - 8	144,447	
Trim	16 - 20	3,159,725	
Unit	2- 4	52,878	
Walls	16 - 20	766,160	
Total		21,091,190	1,465,968