

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

Financial Statements and
Supplementary Information
December 31, 2010 and 2009

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
December 31, 2010 and 2009

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Exceeding your accounting needs

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Independent Accountant's Review Report

We have reviewed the accompanying statement of assets and liabilities - income tax basis of Homestead Owners Association, Inc. (a Colorado non-profit corporation) as of December 31, 2010 and 2009, and the related statement of revenues and expenses - income tax basis and retained earnings - income tax basis for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with other comprehensive basis of accounting principles and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. The income tax basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the American Institute of Certified Public Accountants (AIPCA). Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

A statement of cash flows for the years ended December 31, 2010 and 2009 has not been presented. Generally accepted accounting principles require that such a statement be presented when financial statements purport to present financial position and results of operation. A statement of cash flows is not required when financial statements are prepared on a basis of accounting other than generally accepted accounting principles.

The supplementary information about future major repairs and replacements on Pages 10 - 11 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. The supplementary information for the December 31, 2010 financial statements has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made to it.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with other comprehensive basis of accounting.

Novosad, Lyle & Associates, P.C.

NOVOSAD, LYLE & ASSOCIATES, P.C.
February 10, 2010

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Assets and Liabilities - Income Tax Basis
December 31, 2010 and 2009

Assets	2010	2009
Current Assets:		
Cash - checking	586,104	302,117
Savings-reserve and capital funds	1,575,203	1,545,211
Cash - petty cash and cash box	500	500
Escrow - performance deposits	-	15,000
Accounts receivable - members	91,337	95,124
Inventories, at cost	12,321	11,914
Prepaid expenses	12,978	13,875
Total Current Assets	2,278,443	1,983,741
Property and Equipment:		
Land - Park DeClark	80,000	80,000
Condominium	159,118	159,118
Furniture, fixtures and equipment	250,905	249,778
Accumulated depreciation	(384,425)	(378,753)
Total Property and Equipment	105,598	110,143
Other Assets:		
Working capital - Unit 10	399	399
Total Other Assets	399	399
Total Assets	2,384,440	2,094,283
Liabilities and Retained Earnings		
Current Liabilities:		
Trade accounts payable	12,100	23,643
Escrow deposit payable	-	15,000
Payroll taxes payable	1,724	1,342
Insurance payable	1,391	184
Prebilled dues	93,304	96,400
Accrued payroll taxes	1,432	1,775
Accrued property taxes	12,908	13,102
Accrued wages	18,795	17,749
Total Current Liabilities	141,654	169,195
Other Liabilities:		
Member deposits	7,200	7,550
Locker key deposits	840	840
Total Other Liabilities	8,040	8,390
Total Liabilities	149,694	177,585
Retained Earnings:		
Designated for replacement reserve	1,873,248	1,688,267
Designated for capital reserve	361,498	228,431
Total Retained Earnings (Page 4)	2,234,746	1,916,698
Total Liabilities and Retained Earnings	2,384,440	2,094,283

See accompanying notes and accountants' review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Statements of Revenues and Expenses - Income Tax Basis
December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Owner dues	912,427	914,838
Other revenue	<u>651,278</u>	<u>667,188</u>
Total Revenues	<u>1,563,705</u>	<u>1,582,026</u>
Expenses:		
Activity cost of revenues	50,969	54,529
Bad debts	3,791	-
Bank charges	2,051	1,534
Building and ground maintenance	36,250	37,661
Cable television	3,055	3,740
Cleaning and cleaning supplies	14,024	13,948
Copier lease	6,140	6,133
Design review fees	480	11
Education	2,822	4,787
Electricity	32,250	30,674
Employee expenses	5,601	6,109
Homestead CCTH dues	9,905	11,788
Insurance	62,437	68,886
Landscaping maintenance	13,270	10,740
Legal and accounting	46,977	53,439
Linens	2,319	2,679
Locker room amenities	2,296	2,910
Maintenance supplies and equipment	9,558	9,775
Meeting expense	1,479	1,019
Membership fees	318	-
Member communications	1,691	954
Natural gas	32,036	40,356
Office supplies	9,340	7,798
Payroll taxes	52,271	51,225
Pool chemicals	3,393	6,416
Pool maintenance	8,714	9,484
Postage	5,192	5,983
Real estate taxes	12,908	13,102
Salaries and wages	628,643	618,054
Snow removal repairs	1,670	1,100
Special events	23,816	18,235
Telephone	3,352	4,520
Tennis court maintenance	3,931	5,270
Trash removal	4,760	5,177
Truck expense	5,985	5,294
Water and sewer	26,570	25,118
Total Expenses	<u>1,130,264</u>	<u>1,138,448</u>
Income from Operations	<u>433,441</u>	<u>443,578</u>
Other (Expense) Income:		
Depreciation	(6,965)	(16,403)
Interest income	33,048	51,816
Rental income	55,426	48,490
Other expense	<u>(3,869)</u>	<u>(1,558)</u>
Total Other (Expense) Income	<u>77,640</u>	<u>82,345</u>
Net Income Before Transfers to Replacement and Capital Reserves	511,081	525,923
Transfers to Replacement and Capital Reserves	<u>(511,081)</u>	<u>(525,923)</u>
Net Income	<u><u>-</u></u>	<u><u>-</u></u>

See accompanying notes and accountants' review report

Homestead Owners Association, Inc.
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Statements of Retained Earnings - Income Tax Basis
December 31, 2010 and 2009

	2010	2009
Retained Earnings:		
Designated for replacement reserve, January 1	1,916,698	1,557,454
Transfers to replacement and capital reserves	511,081	525,923
Replacement and capital reserve expenditures	<u>(193,033)</u>	<u>(166,679)</u>
Designated for Replacement Reserve, December 31	<u>2,234,746</u>	<u>1,916,698</u>
 Total Retained Earnings (Page 2)	 <u>2,234,746</u>	 <u>1,916,698</u>

See accompanying notes and accountants' review report

Homestead Owners Association, Inc.
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010 and 2009

1. Organization

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

2. Summary of Significant Accounting Principles

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

Method of Accounting

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

Inventories

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

Income Taxes

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

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

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

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Use of Estimates

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

Recognition of Assets and Depreciation Policy

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

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

Interest Income

Interest income is being allocated to the replacement reserve. Interest income allocated to the reserve fund was \$33,048 and \$51,816 respectively, for the years ended December 31, 2010 and 2009.

3. Inventories

	2010	2009
Retail sporting goods and apparel	10,614	10,114
Food and beverage	999	935
Stringing	708	865
Total	12,321	11,914

4. Long-Term Replacement Funding Program

The Board of Directors has adopted a funding program for future capital expenditures in the form of reserve and capital contribution assessments. The Association has a replacement reserve of \$1,873,248 and \$1,688,267 for the years ended December 31, 2010 and 2009, respectively. The Association also has a capital reserve of \$361,498 and \$228,341 for the years ended December 31, 2010 and 2009, respectively. The annual capital contribution assessments to the replacement reserve were \$376,320 and \$336,000, respectively for the years ended December 31, 2010 and 2009. The annual capital contribution assessments to the capital reserve were \$101,713 and \$138,107, respectively for the years ended December 31, 2010 and 2009. A formal study to estimate the remaining useful lives and the replacement costs of the components of the common property was conducted by Borne Engineering in 2007. The estimates were based on future estimated replacement cost.

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Homestead Owners Association, Inc.
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5. Nonmember Deposits

The Association collects deposits from non-members of the Association who wish to participate in the activities of the Clubhouse. Prior to August 1, 2003, \$250 was collected from each nonmember; the money is retained to cover unpaid fees when a nonmember ends participation in Clubhouse activities. Unapplied deposits are returned to nonmembers who depart as of September 1. At December 31, 2010 and 2009, the deposits totaled \$7,200 and \$7,550 respectively. After July 31, 2003, non-members are charged a non-refundable Admin/Set up Fee of \$250. For the years ended December 31, 2010 and 2009, the Association collected and reported as income a total of \$2,125 and \$2,163, respectively, in Admin/Set up Fees.

6. Savings Accounts and Certificate of Deposit

The Association invests its replacement and capital reserves into certificates of deposit at Alpine Bank (Edwards Branch) and Community Banks of Colorado (Edwards Branch). Starting in 2009 the Association maintained all other investments in a CDARS program in order to be sure all investments were fully insured. The CDARS program is through Alpine Bank where Alpine Bank acts as the custodian of the certificates of deposit which are held at other banks. At December 31, 2010 the \$1,575,203 of combined investments at Alpine Bank, Community Banks of Colorado and the CDARS program had no withdrawal restrictions and was earning interest at an average rate of 1.87% in all savings and certificate of deposit accounts. All interest earned is being allocated to the replacement reserve.

7. Management Contract

The Association has entered into a written contract with Tracy Erickson to manage the Association and Clubhouse. This contract has been extended to December 31, 2014. Erickson is paid a salary and also given other employee benefits in exchange for his management responsibilities.

8. Concentrations of Credit Risk

The Association maintains its cash balances in two financial institutions located in Edwards, Colorado. The Association also has eight certificates of deposit at different financial institutions as note in note 6 above. The Federal Deposit Insurance Corporation insures the balances, up to \$250,000 in 2010 and 2009. Therefore, as of December 31, 2010 all funds were insured except for \$24,013 which was held in a CD at Alpine Bank.

9. Rental Income

The Association has a lease on the day-care center within the Clubhouse to The Montessori Children's House for the period of May 1, 1998 to April 30, 2001. An option to renew was exercised by the school for a period of May 1, 2001 to April 30, 2006. An additional option to renew the lease for a term of five years was exercised by the school for a period of May 1, 2006 to April 30, 2011. Rental income was \$1,889 per month from January thru March and was then increased by 3% on April 1, 2010 to \$1,946 per month for the year ended December 31, 2010.

The Association has an employee who rents a studio apartment on the property on an annual basis for \$425 per month.

Starting in December 2008 the Association's condominium was rented to an employee at a discounted rent in exchange for services to the Association and this continues into 2010.

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Starting in June of 2009 AT&T started paying the Association \$1,000 a month to place a cell tower on the property. There is a 5 year contract with AT&T and at the end of the contract, rent paid to the Association will be renegotiated.

10. Non-Monetary Transactions

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

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

11. Other Revenue

	2010	2009
Forfeited deposits	349	1,200
Member dues	223,243	245,505
Design review fees	975	1,750
Guest fees	12,230	10,655
Statement prep fees	1,250	1,200
Lockers	1,612	1,786
Finance charges and late fees	12,047	10,152
Tanning	1,554	2,749
Personal training	63,247	61,194
Personal trainer contractor fee	7,800	7,800
Pro Shop sales	38,237	43,720
Swimming	13,155	16,348
Aerobics	4,042	2,322
Racquet sports	172,858	174,236
Kid's Camp	84,908	73,862
Baby-sitting - Kid's Camp	11,646	10,547
Admin/Set up fee	2,125	2,162
Total	<u>651,278</u>	<u>667,188</u>

12. Replacement Reserve

The Board of Directors has adopted a funding program for future capital expenditures. In 2010 and 2009 the annual reserve and capital contribution assessments were \$478,033 and \$474,107, respectively. The resulting balances are as follows:

	2010	2009
Beginning balance	1,916,698	1,557,454
Reserve and Capital contribution assessments	478,033	474,107
Allocation of interest income	33,048	51,816
Reserve and Capital expenditures	(193,033)	(166,679)
Ending Balance	<u>2,234,746</u>	<u>1,916,698</u>

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Homestead Owners Association, Inc.
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13. Performance Deposit Escrow

For new construction, a \$7,500 deposit for each separate dwelling unit is required and will be refunded upon completion of plans as presented and approved by the Homestead Owners' Design Review Committee. The board will also collect deposits for other small construction or improvement projects, but the performance deposit collected varies depending on the size of the project. At December 31, 2010 and 2009, the deposits totaled \$0 and \$15,000 respectively.

14. Investment in Option (Land – Park DeClark)

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

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Homestead Owners Association, Inc.
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Supplementary Information on Future Repairs & Maintenance
December 31, 2010
(Continued)

A formal study was conducted by Borne Engineering in 2007 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs.

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

Project	Estimated Remaining Useful Lives in Years	Estimated Current Replacement Costs
Topography and grading	0	5,000
Asphalt parking area	0-5	125,823
Split rail fencing	3-4	74,700
Community lighting units	2-3	18,000
Timber bridges and stairways	0-3	11,875
Playground equipment	0-10	90,000
Community wood decking	0-1	63,288
Community benches and tables	0-14	16,900
Irrigation systems	3	20,000
Windows and doors	0-12	84,000
Concrete tile roofs	0-2	795,000
Montessori school	0	2,500
Indoor tennis court area-crack in wall	0	2,500
Pool area-clean steel structures	0	3,000
Court club front entrance wood columns	0	20,000
Old school house-inspect for movement	0	1,000
Interior flooring	0-7	39,840
Remodel locker rooms	2	44,000
Swimming pool-resurface and other	2-4	50,400
Refurbish spa surface	3	1,100
Steam room	0-9	11,500
Tanning bed	1	2,500
Racquetball and squash courts-replace wall panels	1	40,000
Indoor tennis courts	0-3	54,900
Outdoor tennis courts	1	431,096
Paddle tennis courts	0-14	13,600
Basketball courts	1-16	8,500
Volleyball courts	1-3	6,500
Restroom facility	7	4,500
Replace outdoor furniture	2	19,250
Appliances	0-12	9,000
Rooftop units	0	60,000
Pool HVAC	0	160,002
Entry furnace	13	1,200
Domestic hot water heaters	6	5,000
Pool and spa boilers	12-14	7,000
Pool and spa filters	5	3,000
Radiant heat system in indoor tennis courts	11	87,500
Fire and smoke detection system	4	9,000
Elevator control system and cab	4-7	42,500
Pickup and plow	0-2	28,000
Trailer	2	4,500
Tractor	7	6,000
Replace walk behind mower	4	2,500
Skid steer	14	35,000
Unit #10-remodel kitchen and bathrooms	0	30,000
Total		<u>3,099,213</u>

See accountants' review report

Homestead Owners Association, Inc.
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Supplementary Information on Future Repairs & Maintenance
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The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of future replacement costs. A new reserve study was completed in 2010 for 2011-2013.

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

See accountants' review report