

**THE ENCLAVE ASSOCIATION, INC.**

**AUDITED FINANCIAL STATEMENTS  
(with supplementary information)**

**September 30, 2019**

enclave

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**September 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
The Enclave Association, Inc.  
Snowmass Village, Colorado

We have audited the accompanying financial statements of The Enclave Association, Inc., which comprise the balance sheet as of September 30, 2019, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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 from material misstatement.

An audit involves 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 purpose 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 have 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 Enclave Association, Inc. as of September 30, 2019, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on page 11 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.

### ***Correction of Error***

As described in Note 9 to the financial statements, an error in the allocation of fund balance between the operating fund and replacement fund was noted. Our opinion is not modified with respect to that matter.

*Reese Henry & Company, Inc.*

Certified Public Accountants  
Aspen, Colorado  
June 22, 2020

**THE ENCLAVE ASSOCIATION, INC.**  
**BALANCE SHEET**  
**September 30, 2019**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	\$ 232,801	\$ 494,994	\$ 727,795
Prepaid Expenses	5,594	-	5,594
Interfund Receivable (Payable)	(275,124)	275,124	-
<b>TOTAL CURRENT ASSETS</b>	<b>(36,729)</b>	<b>770,118</b>	<b>733,389</b>
<b>PROPERTY</b>			
Equipment and Furniture	66,966	-	66,966
Employee Housing Unit	96,823	-	96,823
	163,789	-	163,789
Less Accumulated Depreciation	(156,689)	-	(156,689)
<b>TOTAL PROPERTY</b>	<b>7,100</b>	<b>-</b>	<b>7,100</b>
<b>TOTAL ASSETS</b>	<b>\$ (29,629)</b>	<b>\$ 770,118</b>	<b>\$ 740,489</b>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 24,620	\$ -	\$ 24,620
Due to Management Company	36,073	-	36,073
Accrued Expenses	4,045	-	4,045
Prepaid Assessments	2,066	-	2,066
<b>TOTAL CURRENT LIABILITIES</b>	<b>66,804</b>	<b>-</b>	<b>66,804</b>
<b>FUND BALANCE</b>			
Contributed Capital	6,000	-	6,000
Fund Balance	(102,433)	770,118	667,685
<b>TOTAL FUND BALANCE</b>	<b>(96,433)</b>	<b>770,118</b>	<b>673,685</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ (29,629)</b>	<b>\$ 770,118</b>	<b>\$ 740,489</b>

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

**THE ENCLAVE ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND BALANCE**  
**For the Year Ended September 30, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Member Assessments	\$ 852,842	\$ 111,866	\$ 964,708
Special Assessments	95,066	-	95,066
Interest Income	2,270	222	2,492
Rental Income	14,400	5,665	20,065
<b>TOTAL REVENUES</b>	<b><u>964,578</u></b>	<b><u>117,753</u></b>	<b><u>1,082,331</u></b>
<b>EXPENSES</b>			
Special Projects	102,433	12,781	115,214
Repairs and Maintenance	326,455	-	326,455
General and Administrative	369,868	-	369,868
Utilities	161,469	-	161,469
Depreciation	3,864	-	3,864
<b>TOTAL EXPENSES</b>	<b><u>964,089</u></b>	<b><u>12,781</u></b>	<b><u>976,870</u></b>
<b>EXCESS REVENUES OVER EXPENSES</b>	<b>489</b>	<b>104,972</b>	<b>105,461</b>
<b>FUND TRANSFER</b>	<b>(7,856)</b>	<b>7,856</b>	<b>-</b>
<b>FUND BALANCE, Beginning of the year - RESTATED</b>	<b><u>(89,066)</u></b>	<b><u>657,290</u></b>	<b><u>568,224</u></b>
<b>FUND BALANCE, End of the year</b>	<b><u>\$ (96,433)</u></b>	<b><u>\$ 770,118</u></b>	<b><u>\$ 673,685</u></b>

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

**THE ENCLAVE ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended September 30, 2019**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Excess Revenues Over Expenses	\$ 489	\$ 104,972	\$ 105,461
Adjustment to Reconcile Excess Revenues Over Expenses to Net Cash Provided by Operating Activities:			
Depreciation	3,864	-	3,864
Increase in:			
Accounts Receivable	5,513	-	5,513
Prepaid Expenses	13,112	-	13,112
Increase (Decrease) in:			
Accounts Payable	12,186	-	12,186
Due to Management Company	(32,457)	-	(32,457)
Accrued Expenses	3,984	-	3,984
Prepaid Assessments	2,062	-	2,062
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>8,753</u></b>	<b><u>104,972</u></b>	<b><u>113,725</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Fixed Assets	(4,862)	-	(4,862)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b><u>(4,862)</u></b>	<b><u>-</u></b>	<b><u>(4,862)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund Activity	41,086	(41,086)	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b><u>41,086</u></b>	<b><u>(41,086)</u></b>	<b><u>-</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b><u>44,977</u></b>	<b><u>63,886</u></b>	<b><u>108,863</u></b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>187,824</u></b>	<b><u>431,108</u></b>	<b><u>618,932</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 232,801</u></b>	<b><u>\$ 494,994</u></b>	<b><u>\$ 727,795</u></b>

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

**THE ENCLAVE ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2019**

**1. NATURE OF ORGANIZATION**

The Enclave Association, Inc. (the "Association") was incorporated on December 11, 1979 under the laws of the State of Colorado as a not-for-profit corporation for the purpose of operating and maintaining the common elements of the Enclave condominium complex. The Association's complex is located in the ski resort community of Snowmass Village, Colorado and consists of 40 separately owned condominium units and common areas. The primary use of the property is for owners or guests. Some owners participate in a rental program administrated by the WVR Colorado, LLC ("WVR"). The rental program activity is not a part of these financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

The Association's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") that have been consistently applied in the preparation of the financial statements.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

**FUND ACCOUNTING**

The Association employs the fund method of accounting to account for restrictions on the expenses resulting from actions of the Board of Directors or the Association voting membership.

These financial statements segregate the accounting for the operating fund or replacement fund. The disbursements from the operating fund are generally at the discretion of the Board of Directors (the "Board") or the site manager. The disbursements from the replacement fund may only be used according to the fund's purpose. See Note 6.

**CASH AND CASH EQUIVALENTS**

The Association considers money market funds and certificates of deposit with a maturity of three months or less at the time of purchase to be cash equivalents.

**INTERFUND RECEIVABLE AND PAYABLE**

As of September 30, 2019, the operating fund had borrowed \$275,124 from the replacement fund for various expenses.

**PROPERTY**

The employee housing unit, equipment, and furniture are recorded at cost and are being depreciated over five to seven years for equipment and furniture and 31 ½ years for the employee housing unit.

Common real property acquired by the original homeowners from the developer is not capitalized on the Association's financial statements as it is owned by the individual owners in common and not the



Association. Likewise, major replacements and improvements to the common real property are expensed to the replacement fund as incurred. The Association is responsible for preserving and maintaining common property and has the authority to dispose of capitalized assets it no longer needs.

#### MEMBER ASSESSMENTS

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, special projects and major repairs and replacements. Assessments receivable includes fees due from unit owners. As of September 30, 2019, there were no assessments receivable from unit owners. Any excess assessments at year end are retained by the Association for use in the succeeding year or may be moved to the replacement fund if such an election is made by the Association. The Association's policy is to retain legal counsel and to place liens on the properties of unit owners whose assessments are delinquent, as determined by the Board. Interest is accrued on balances at rates determined by the Board. It is the opinion of the Board that the Association will ultimately prevail against unit owners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary. At September 30, 2019, the Association had no delinquent assessments receivables from unit owners.

#### SPECIAL ASSESSMENTS

Special assessments are billed to unit owners at the discretion of the Board. Special assessments are recognized as revenue in the period billed.

#### INTEREST INCOME

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

#### DATE OF MANAGEMENT'S REVIEW

The Association has evaluated subsequent events through June 22, 2020, the date which the financial statements were available to be issued.

### **3. INCOME TAX**

All corporations are required to file income tax returns regardless of tax liability. For the year ended September 30, 2019, the Association was taxed as a regular corporation and filed Form 1120. As a regular corporation, member activity is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income at regular federal and state corporate tax rates. Excess member income is taxable if it is not used to cover a member deficit in the next fiscal year. Member activity for the year ended September 30, 2019 showed a surplus of \$16,385. A member loss carryover of \$73,629 is available to offset future member surpluses.

The Association's non-membership income includes employee unit rental income and interest earned on cash deposits net of related expenses. For the year ended September 30, 2019, the Association had a loss of \$9,219 on non-member activities. The taxable loss was \$10,009 for the fiscal year.

A portion of the loss on non-member activities begins to expire in the fiscal year ending September 30, 2020. The Association has not recognized any deferred tax asset in relation to the non-membership loss carryover as the amount is considered immaterial.

#### **4. MANAGEMENT AGREEMENT**

The Association entered into a management agreement with Snowmass Lodging Company (SLC) on July 1, 2015, which continued through September 30, 2015. On September 1, 2016, the Association extended the contract retroactively from October 1, 2015 through September 30, 2016 and consented to the assignment of the management agreement to WVR Colorado, LLC. SLC was bought out by Wyndham and changed its legal name to WVR. In the absence of a new agreement, this agreement is renewed automatically for successive one-year periods.

The Association currently pays a management fee of \$139,785 per year. In addition to the management fee, the Association pays the following annual service fees to WVR:

- A. Front office fee of \$95,677,
- B. Direct office expense of \$1,930,
- C. Van rental of \$31,707.

During the year ended September 30, 2019, the Association paid WVR \$409,622 for the above agreements, property maintenance and other operating expenses. As of September 30, 2019, the Association owed WVR \$36,073. For the year ended September 30, 2019, WVR made up 42% of the Association's operating expenses.

In addition to the above expenses, the Association billed all owners for an inducement fee. The fee is credited back to the owners by WVR if the owners enter into a rental or non-rental agreement with WVR. Owners who choose to not sign one of the agreements do not get the inducement fee credit. The Association collects the fee from those owners and remits to WVR. Total inducement fees billed to the owners for the year ended September 30, 2019 was \$312,000, total amount of rebates WVR credited to the owners for the inducement fee was \$295,870. The Association forwarded \$16,130 to WVR for those owners who did not sign an agreement with WVR.

WVR leases the Association's employee unit to employees of WVR. The Association receives a maximum of \$1,200 of per month if occupied (and a prorated amount if there are any vacancies). The Association received rental income of \$14,400 for the year ended September 30, 2019.

#### **5. CONCENTRATION OF RISK**

The Association maintains deposits in local banks which may at times exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). To help manage credit risk, the Association participates in an Insured Cash Sweep (ICS), which is designed to allow FDIC insured depository institutions to accept deposits of more than \$250,000 and obtain full coverage for the depositor by spreading the funds among as many separate FDIC insured institutions as necessary. Currently all the Association's certificates of deposits are placed through such service.

#### **6. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association has a capital replacement funding program. As of September 30, 2019, the Association has restricted \$770,118 of fund balance for the replacement program. Cash surpluses have been specifically identified and set aside to pay for future replacement projects. These cash balances do not represent 100% funding of the current or future estimated replacement funding requirement. Restricted cash is held in separate interest-bearing accounts and is generally not available for normal operating

expenditures. It is the Association's policy to allocate interest earned on such funds to the replacement fund.

In December 1988, an independent contractor conducted a study of the property to estimate the remaining useful lives and replacement costs of all components of the common property. This study is updated internally on an annual basis. The table included in the unaudited supplementary information on Future Major Repairs and Replacement on page 11 is based on updates to this study. The funding for these major repairs and replacements is based on the WVR's recommendations and amounts previously accumulated in the replacement fund. A funding requirement of \$102,228 has been included in the 2019-2020 budget.

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

## **7. SPECIAL ASSESSMENTS**

On October 4, 2018, the Board approved an additional special assessment in the amount of \$95,066 for "Phase II Entitlement Renovation and Soft Costs". The assessment was collected during the 2018-2019 fiscal year to cover the shortfall for soft costs related to the preliminary plan approval. Reserve funds were used to pay for the shortfall. The special assessment was to replace the reserve funds spent to cover the shortfall.

On January 15, 2019, the Board approved funding related to obtaining final approval from the Town of Snowmass Village for the renovation and redevelopment plan. The Board hired an architect/planner to assist with the renovation and redevelopment plan. The Board agreed to borrow the funds from the replacement fund. The loan will be paid back through a three-year special assessment commencing at the start of the fiscal year beginning October 1, 2020 and ending September 30, 2023.

## **8. SUBSEQUENT EVENTS**

In early March 2020, the U.S. and global economies have reacted negatively in response to worldwide concerns due to the economic impact of the COVID-19 pandemic. These trends, including a potential economic downturn, and any potential resulting direct and indirect negative impacts to the Association, cannot be determined, but may have a material prospective impact to the Association's operations, cash flows and liquidity.

## **9. RESTATEMENT**

A project relating to potential development of common property was included in the replacement fund. It was determined those costs do not meet the definition of proper replacement fund activity. At September 30, 2018, the balance in this project's account was a deficit of \$95,066. Operating fund balance was decreased by \$95,066 and replacement fund balance was increased by \$95,066.

**SUPPLEMENTARY INFORMATION**

**THE ENCLAVE ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS**  
**AND REPLACEMENTS (UNAUDITED)**  
**September 30, 2019**

An independent contractor conducted a study during December 1988 to estimate the remaining useful lives and the replacement costs of the components of the common property. This study is updated annually. Replacement costs were based on the estimated costs to replace or repair the common property as of the study date, as calculated by the independent contractor. Estimated current replacement costs take into account actual inflation since that date.

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

Component:	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	September 30, 2020 Funding Requirement	Replacement Fund Balance September 30, 2019
Roof	18	\$ 1,500,000	\$ 35,000	\$ (14,680)
Garage Roofs	36	160,000	-	105,416
Siding, Exterior Surfaces and Stairwells	19	750,000	11,700	72,887
Boilers and Hot Water System	9-32	152,350	14,471	55,151
Windows	24	500,000	5,000	131,745
Exterior Lights	14-21	34,230	1,992	34,805
Entryway Enhancements	21	1,250	-	1,250
Exercise Equipment	21	6,200	-	-
Fire Safety System	20	40,000	2,273	48,442
Elevators	36	263,000	10,520	(44,720)
Heated Drive	29	500,000	10,000	118,120
Pool and Spa Replacement	9-34	265,300	11,273	143,052
Crawlspace Remediation	33	250,508	-	22,294
Walkway Remediation	34	200,000	-	-
Arrival Center	11	35,000	-	96,356
<b>TOTALS</b>		<b><u>\$ 4,657,838</u></b>	<b><u>\$ 102,229</u></b>	<b><u>\$ 770,118</u></b>

See accompanying notes and Independent Auditor's Report.