

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC. ✓

FINANCIAL STATEMENTS ✓

DECEMBER 31, 2017

Draft

**PLACEHOLDER FOR
INDEPENDENT AUDITORS' REPORT**

Draft

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**PLACEHOLDER FOR
INDEPENDENT AUDITORS' REPORT**

Draft

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.**Balance Sheet
December 31, 2017**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>(Memo Only) Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 53,619	\$ 88,755	\$ 142,374
Certificates of deposit	-	201,614	201,614
Assessments receivable	9,993	-	9,993
Deposits	80,439	-	80,439
Due from Replacement Fund	6,888	-	6,888
Total Current Assets	<u>150,939</u>	<u>290,369</u>	<u>441,308</u>
Property and Equipment, net	<u>432,158</u>	-	<u>432,158</u>
Total Assets	<u>\$ 583,097</u>	<u>\$ 290,369</u>	<u>\$ 873,466</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accrued liabilities	\$ 3,044	\$ -	\$ 3,044
Note payable, current portion	12,640	-	12,640
Prepaid assessments	2,103	-	2,103
Refundable deposits, other	2,040	-	2,040
Refundable performance deposits	80,439	-	80,439
Due to Operating Fund	-	6,888	6,888
Total Current Liabilities	<u>100,266</u>	<u>6,888</u>	<u>107,154</u>
Note Payable, Net of Current Portion	<u>25,239</u>	-	<u>25,239</u>
Total Liabilities	125,505	6,888	132,393
Fund Balances	<u>457,592</u>	<u>283,481</u>	<u>741,073</u>
Total Liabilities and Fund Balances	<u>\$ 583,097</u>	<u>\$ 290,369</u>	<u>\$ 873,466</u>

See accompanying notes to the financial statements and the independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Statement of Revenues, Expenses and Changes in Fund Balances

For the year ended December 31, 2017

	Operating Fund	Replacement Fund	(Memo Only) Total
REVENUES			
Member assessments	\$ 269,655	\$ -	\$ 269,655
Architectural and closing statement fees	38,700	-	38,700
Hockey rink revenues	5,510	-	5,510
Interest income	349	2,745	3,094
Donations and grants	2,292	-	2,292
Late fees and other charges	4,532	-	4,532
Rental income	13,900	-	13,900
Other income	5,542	-	5,542
Total Revenues	<u>340,480</u>	<u>2,745</u>	<u>343,225</u>
EXPENSES			
General and administrative			
Salaries and wages	83,236	-	83,236
Professional fees	31,320	-	31,320
Insurance - vehicle	804	-	804
Insurance	8,645	-	8,645
Office supplies	2,461	-	2,461
Payroll taxes	10,155	-	10,155
Electricity	4,353	-	4,353
Newsletter	3,115	-	3,115
Bad debt expense	663	-	663
Miscellaneous	4,014	-	4,014
Telephone and internet	2,125	-	2,125
Website	2,322	-	2,322
Employee benefits	5,119	-	5,119
Trash, water and sewer	1,412	-	1,412
Postage	1,264	-	1,264
Cleaning	650	-	650
Meetings and picnics	4,659	-	4,659
Maintenance			
Property	60,733	-	60,733
Parks and recreational facilities	29,053	-	29,053
Other			
Depreciation	31,705	-	31,705
Interest expense	2,609	-	2,609
Total Expenses	<u>290,417</u>	<u>-</u>	<u>290,417</u>
Excess of revenues over expenses	50,063	2,745	52,808
Fund balances, beginning of year	432,529	255,736	688,265
Fund transfers	(25,000)	25,000	-
Fund balances, end of year	<u>\$ 457,592</u>	<u>\$ 283,481</u>	<u>\$ 741,073</u>

See accompanying notes to the financial statements and the independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Statement of Cash Flows
For the year ended December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>(Memo Only) Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 50,063	\$ 2,745	\$ 52,808
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	31,705	-	31,705
Change in:			
Assessments receivable	(824)	-	(824)
Deposits	(14,775)	-	(14,775)
Accrued liabilities	1,053	-	1,053
Prepaid assessments	1,327	-	1,327
Refundable deposits, other	(240)	-	(240)
Refundable performance deposits	14,767	-	14,767
Interfund liabilities	<u>18,146</u>	<u>(18,146)</u>	<u>-</u>
Net cash provided by operating activities	101,222	(15,401)	85,821
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	<u>(68,410)</u>	-	<u>(68,410)</u>
Net cash used in investing activities	(68,410)	-	(68,410)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payment on notes payable	(25,403)	-	(25,403)
Redemption of certificate of deposit	-	16,546	16,546
Fund transfers	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(50,403)</u>	<u>41,546</u>	<u>(8,857)</u>
Net increase (decrease) in cash and cash equivalents	(17,591)	26,145	8,554
Cash and cash equivalents, beginning of year	<u>71,210</u>	<u>62,610</u>	<u>133,820</u>
Cash and cash equivalents, end of year	<u>\$ 53,619</u>	<u>\$ 88,755</u>	<u>\$ 142,374</u>
SUPPLEMENTAL DISCLOSURE			
Cash paid for income taxes			<u>\$ -</u>
Cash paid for interest			<u>\$ 2,609</u>

See accompanying notes to the financial statements and the independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 1 NATURE OF ORGANIZATION

Crested Butte South Property Owners Association, Inc. (the "Association") is a statutory property owner association organized as a non-profit corporation incorporated in the State of Colorado in June 1979. The Association is responsible for the operation and maintenance of the common property of Crested Butte South, a 460+ acre residential, commercial and parks space in Crested Butte, Colorado.

Note 2 DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 26, 2018, the date that the financial statements were available to be issued.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred.

Fund Accounting

In accordance with generally accepted accounting principles in the United States of America (US GAAP), the Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the Operating Fund are generally at the discretion of the board of directors and property manager. Disbursements from the Replacement Fund generally may be made for designated purposes. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operation of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs, replacements and acquisitions.

Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments

Association members are subject to annual assessments based on type of unit to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Board of Directors determines the annual budget and the assessment of owners. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. Assessments receivable at the balance sheet date represent fees due from unit owners. A late fee and interest may be charged on assessments receivable that are outstanding for more than 60 days, and is recognized as it is charged.

The Association has the right to enforce the collection of assessments by placing a lien on the underlying title to the property when assessments are outstanding for 90 or more days. Given this leverage afforded the Association, and the past collection history of the Association, an allowance for uncollectable assessments is not considered necessary.

Prepaid assessments

Prepaid assessments are subsequent years' member assessments received prior to the current year end.

Recognition of Assets and Depreciation Policy

Real property and common areas acquired from the developer and related improvements to such property are owned by the individual unit owners in common as well as by the Association. Accordingly, these common area assets are recorded on the Association's financial statements. The real property consists of buildings, maintenance barn, landscape, parking, etc. The Association recognizes property at cost. The property and improvements are depreciated over estimated useful lives ranging from 5 to 35 years using the straight-line method.

Cash and Cash Equivalents

The Association considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Compensated absences

The Association recognizes a liability for compensated absences under their policy which allows full time employees to carry forward no more than five days of vacation into the first quarter of the next calendar year. No carry forward is allowed for unused sick time.

Note 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements. Upon assessment collection, monies are deposited in non-restricted operating accounts. During the year ended December 31, 2017, a net amount of \$25,000 was transferred from the Operating Fund to the Replacement Fund.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

During the year ended December 31, 2017, the Replacement Fund's investment accounts earned \$2,745 in interest income.

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 to increase regular assessments, pass special assessments, borrow funds or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

Note 5 INCOME TAXES

Homeowner associations may be taxed as regular corporations, subject to the provisions of Internal Revenue Code Section 277, or as homeowner associations subject to Internal Revenue Code Section 528. The Association elected to be taxed as a regular corporation for the year ended December 31, 2017. According to the Internal Revenue Code Section 277 and Internal Revenue Service regulation, any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income unrelated to member activities is considered to be taxable income and will be taxed according to Internal Revenue Service regulations. The Association did not report taxable income for the year ended December 31, 2017.

The standards on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include deciding on an allocation of income and expenses between member and nonmember activities and deciding whether to file Form 1120 or Form 1120-H. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Association has assessed its tax positions for all open tax years and has concluded that there are currently no significant unrecognized tax benefits or liabilities to be recognized. As of December 31, 2017, the Association's tax years for 2014, 2015 and 2016 are open to examination by taxing authorities.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 5 INCOME TAXES (Continued)

As of December 31, 2017, the Association has a federal net operating loss carry forward which expires as follows:

<u>Expiration Date</u>	<u>Amount</u>
12/31/2022	\$ 7,099
12/31/2023	16,160
12/31/2024	10,341
12/31/2025	1,839
12/31/2028	352
12/31/2029	772
12/31/2030	1,294
12/31/2031	572
12/31/2032	6,906
12/31/2033	6,439
12/31/2034	7,291
12/31/2035	9,139
TOTAL	<u>\$ 68,204</u>

This carry forward creates a deferred tax asset of approximately \$14,300; however, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 6 CERTIFICATES OF DEPOSIT

The Association has invested in certificates of deposit. Interest earned on these certificates of deposit is compounded monthly and reinvested when paid. The certificates of deposit are carried at fair market value. The certificates of deposit held in the Replacement Fund are as follows at December 31, 2017:

<u>Institution</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Fair Market Value</u>	<u>Cost</u>
Synchrony Bank	1.49%	October 29, 2018	\$ 50,184	\$ 50,000
Synchrony Bank	1.24%	January 29, 2018	50,577	50,000
Synchrony Bank	1.34%	April 29, 2018	50,506	50,000
Synchrony Bank	1.39%	July 29, 2018	50,347	50,000
			<u>\$ 201,614</u>	<u>\$ 200,000</u>

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 7 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$	117,255
Building		172,058
Maintenance barn		128,460
Park equipment		174,067
Property improvements		123,898
Furniture and equipment		82,957
Vehicles		69,626
Total property and equipment		<u>868,321</u>
Less: accumulated depreciation		(436,163)
Property and equipment, net	\$	<u><u>432,158</u></u>

Depreciation expense for the year ended December 31, 2017 was \$31,705.

The Association leased office space to an architectural firm and recorded rental payments as rental income for a total of \$1,800, which is included in Rental income on the Statement of Revenues and Expenses and Changes in Fund Balances. The lease is currently renewed through February 1, 2018.

Note 8 NOTE PAYABLE

The Association obtained a promissory note in March 2007 for \$141,900 with an initial interest rate of 7.25%. The note was to be repaid in 180 monthly installments of \$1,304 each. The note was collateralized by the real property located at 61 Teocalli, Crested Butte, Colorado. In October 2010, the terms of the note were amended. The note now carries a 5.40% interest rate and has a monthly payment of \$1,198. In January 2017, the Association made an additional \$13,500 principal payment to the note. Principal reductions impact the maturity date and terms of the note. Total principal payments made during the year ended December 31, 2017 were \$25,402. During the year ended December 31, 2017, the Association incurred interest expense of \$2,609, which is recorded on the Statement of Revenues, Expenses and Changes in Fund Balances. As of December 31, 2017 the balance of the note was \$37,879 and is reported on the Balance Sheet as follows:

Note payable, current portion	\$	12,640
Note payable, net of current portion		<u>25,239</u>
Total Note payable	\$	<u><u>37,879</u></u>

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2017

Note 8 NOTE PAYABLE (Continued)

The scheduled amortization for the note is as follows:

	Total Minimum Payments	Less: Interest Expense	Total Principal Payments
<u>For the Years Ending December 31:</u>			
2018	\$ 14,376	\$ 1,736	\$ 12,640
2019	14,376	1,036	13,340
2020	12,200	301	11,899
	<u>\$ 40,952</u>	<u>\$ 3,073</u>	<u>\$ 37,879</u>

Note 9 OPERATING LEASES

The Association leases property from Spann Ranches for use as a Nordic skiing trail system for an annual fee of \$2,500 per year due and payable on December 1 of each year through December 31, 2018. The Nordic skiing trails are free of charge to CB South residents, property owners, and their accompanying guests.

Note 10 PERFORMANCE DEPOSITS

The Association bills and collects performance deposits from owners who are making improvements to their properties. The deposits are retained until the work is completed to the satisfaction of the Architectural Review Committee. At December 31, 2017, the Association held funds totaling \$80,439 from various owners. Property improvements generally are finished within twelve months.

Note 11 ARCHITECTURAL AND CLOSING STATEMENT FEE

The Association collects an application fee when an owner requests changes or improvements to their property and a transfer fee upon the transfer of property ownership. For the year ended December 31, 2017, the Association collected \$24,900 and \$13,800, respectively, which is recorded as Architectural and closing statement fees on the Statement of Revenues, Expenses and Changes in Fund Balances.

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

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**PLACEHOLDER FOR
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CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Statement of Revenues and Expenses - Budget Versus Actual (non-GAAP)

For the year ended December 31, 2017

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Member assessments	\$ 268,551	\$ 269,655	\$ 1,104
Architectural and closing statement fees	21,500	38,700	17,200
Hockey rink revenues	3,250	5,510	2,260
Interest income	3,125	3,094	(31)
Donations and grants	1,600	2,292	692
Late fees and other charges	3,500	4,532	1,032
Rental income	13,208	13,900	692
Other income	1,035	5,542	4,507
Total Revenues	<u>315,769</u>	<u>343,225</u>	<u>27,456</u>
EXPENSES			
General and administrative			
Salaries and wages	79,436	83,236	(3,800)
Professional fees	29,956	31,320	(1,364)
Insurance - vehicle	960	804	156
Insurance	10,843	8,645	2,198
Office supplies	2,435	2,461	(26)
Payroll taxes	11,845	10,155	1,690
Electricity	3,972	4,353	(381)
Newsletter	2,700	3,115	(415)
Bad debt expense	1,000	663	337
Miscellaneous	5,595	4,014	1,581
Telephone and internet	2,004	2,125	(121)
Website	2,140	2,322	(182)
Employee benefits	6,557	5,119	1,438
Trash, water and sewer	1,348	1,412	(64)
Postage	750	1,264	(514)
Cleaning	600	650	(50)
Meetings and picnics	4,400	4,659	(259)
Maintenance			
Property	53,422	60,733	(7,311)
Parks and recreational facilities	27,950	29,053	(1,103)
Other			
Depreciation	31,569	31,705	(136)
Interest expense	3,186	2,609	577
Total Expenses	<u>282,668</u>	<u>290,417</u>	<u>(7,749)</u>
Excess of revenues over expenses	<u>\$ 33,101</u>	<u>\$ 52,808</u>	<u>\$ 19,707</u>

See accompanying independent auditors' report on supplemental information.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.
Supplemental Information on Future Major Repairs and Replacements (Compiled)
December 31, 2017

The Association engaged Aspen Reserve Specialties to conduct a formal study in September 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

	Estimated Remaining Useful Life in Years	Estimated cost to repair/ replace	2016	2017	2018
Metal roof, replace	9	\$ 39,600	\$ -	\$ -	\$ -
Building exterior	0	9,000	-	-	29,301
Drive material, replenish/resurface	0-5	50,600	-	-	-
Property access, replace	0-5	10,500	-	-	-
Composite deck, replace	6	4,200	-	-	-
Property identification, rebuild/replace	0-3	23,500	-	-	-
Fencing/walls, replace	0-3	109,225	-	-	-
Courts, replace/recoat	0-11	67,550	-	-	-
Recreation equipment, replace/rebuild	0-6	269,100	-	-	-
Interiors, replace/remodel	0-4	52,400	4,055	-	-
Carpeting, replace	0	5,250	3,816	-	-
Irrigation system, rebuild	0	9,000	5,515	-	-
Gravel paths, replenish	0	25,000	-	31,155	-
Maintenance equipment, replace	0-2	130,250	-	28,039	-
Warming hut, renovate	4	4,000	-	-	15,627
		<u>\$809,175</u>	<u>\$ 13,386</u>	<u>\$ 59,194</u>	<u>\$ 44,928</u>

See accompanying independent auditors' report on supplemental information.