

# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard  
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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors

Crested Butte South Property Owners Association, Inc.  
Crested Butte, Colorado

We have audited the financial statements of Crested Butte South Property Owners Association, Inc. as of and for the year ended December 31, 2011, and our report thereon dated August 6, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The statement of revenues and expenses-budget versus actual, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United State of America require that supplemental 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.

*McNurlin & Associates P.C.*  
McNurlin & Associates, P.C.  
Lakewood, Colorado  
August 6, 2012

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
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Crested Butte, Colorado

We have audited the accompanying balance sheet of Crested Butte South Property Owners Association, Inc. as of December 31, 2011, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crested Butte South Property Owners Association, Inc. at December 31, 2011, 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.

*McN & Associates P.C.*

McNurlin & Associates, P.C.  
Lakewood, Colorado  
August 6, 2012

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McNurlin & Associates, P.C.  
Lakewood, Colorado  
August 6, 2012

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McNurlin & Associates, P.C.  
Lakewood, Colorado  
August 6, 2012

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

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

Balance Sheet  
December 31, 2011

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	(Memo Only) <u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash & cash equivalents	\$ 36,310	\$ 120,241	\$ 156,551
Performance cash deposits	21,908	-	21,908
Assessments receivable, net	5,843	-	5,843
Total Current Assets	<u>64,061</u>	<u>120,241</u>	<u>184,302</u>
Property and Equipment, net	<u>360,045</u>	<u>-</u>	<u>360,045</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 424,106</u></u>	<u><u>\$ 120,241</u></u>	<u><u>\$ 544,347</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 3,675	\$ -	\$ 3,675
Accrued expenses	3,224	-	3,224
Compensated absences	-	-	-
Prepaid assessments	1,145	-	1,145
Note payable, current portion	8,599	-	8,599
Performance deposits	21,908	-	21,908
Total Current Liabilities	<u>38,551</u>	<u>-</u>	<u>38,551</u>
Note payable, net of current portion	<u>102,288</u>	<u>-</u>	<u>102,288</u>
Total Liabilities	140,839	-	140,839
Fund Balances	<u>283,267</u>	<u>120,241</u>	<u>403,508</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 424,106</u></u>	<u><u>\$ 120,241</u></u>	<u><u>\$ 544,347</u></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, 2011

	Operating Fund	Replacement Fund	(Memo Only) Total
<b>REVENUES</b>			
Member assessments	\$ 223,000	\$ -	\$ 223,000
Architectural and closing statement fees	6,900	-	6,900
Hockey rink revenues	14,352	-	14,352
Interest on deposits	825	241	1,066
Donations and grants	4,016	-	4,016
Forfeited performance deposits	187	-	187
Other	9,198	-	9,198
Total Revenues	<u>258,478</u>	<u>241</u>	<u>258,719</u>
<b>EXPENSES</b>			
General and administrative			
Salaries and wages	129,065	-	129,065
Legal and consulting	10,296	-	10,296
Insurance	8,510	-	8,510
Office supplies	1,522	-	1,522
Repairs and maintenance	45	-	45
Payroll taxes	11,919	-	11,919
Electricity	3,883	-	3,883
Legal notices	1,235	-	1,235
Newsletter	249	-	249
Miscellaneous	8,782	-	8,782
Telephone and internet	2,287	-	2,287
Website	3,752	-	3,752
Employee benefits	5,200	-	5,200
Trash, water and sewer	970	-	970
Postage	355	-	355
Cleaning	10	-	10
Meetings and picnics	2,921	-	2,921
Accounting and tax preparation	590	-	590
Maintenance			
Property	10,776	-	10,776
Parks and recreational facilities	19,691	-	19,691
Other			
Depreciation and amortization	32,351	-	32,351
Interest and closing expenses	6,312	-	6,312
Total Expenses	<u>260,721</u>	<u>-</u>	<u>260,721</u>
Excess of Revenues Over (Under) Expenses	(2,243)	241	(2,002)
BEGINNING FUND BALANCES	405,510	-	405,510
TRANSFERS	<u>(120,000)</u>	<u>120,000</u>	<u>-</u>
ENDING FUND BALANCES	<u>\$ 283,267</u>	<u>\$ 120,241</u>	<u>\$ 403,508</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, 2011

	Operating <u>Fund</u>	Replacement <u>Fund</u>	(Memo Only) <u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess of revenues over (under) expenses	\$ (2,243)	\$ 241	\$ (2,002)
Adjustments to reconcile excess of revenues over (under) expenses to net cash provided by operating activities:			
Depreciation and amortization	32,351	-	32,351
Change in assessments receivable	1,745	-	1,745
Change in other receivables	1,000	-	1,000
Change in accounts payable	1,683	-	1,683
Change in accrued expenses	(49)	-	(49)
Change in compensated absences	(2,663)	-	(2,663)
Change in prepaid assessments	1,145	-	1,145
Change in performance deposits	<u>(9,877)</u>	<u>-</u>	<u>(9,877)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	23,092	241	23,333
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
	-	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Principal payment on notes payable	(8,064)	-	(8,064)
Redemption of performance deposit funds	9,878	-	9,878
Transfers	<u>(120,000)</u>	<u>120,000</u>	<u>-</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(118,186)</u>	<u>120,000</u>	<u>1,814</u>
NET INCREASE (DECREASE) IN CASH	(95,094)	120,241	25,147
CASH AT BEGINNING OF YEAR	<u>131,404</u>	<u>-</u>	<u>131,404</u>
CASH AT THE END OF YEAR	<u>\$ 36,310</u>	<u>\$ 120,241</u>	<u>\$ 156,551</u>
 <b>SUPPLEMENTAL DISCLOSURE</b>			
Income taxes paid			<u>\$ -</u>
Interest paid			<u>\$ 6,312</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, 2011

## Note 1 NATURE OF ORGANIZATION

The 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 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 August 6, 2012, the date that the financial statements were available to be issued.

## Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Accounting

In accordance with generally accepted accounting principles (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.

### Member Assessment

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. Vacant land dues were \$144, residential dues were \$288 and commercial dues were \$595 per unit for the year ended December 31, 2011. 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. The Association has the right to enforce the collection of assessments by placing a lien on the underlying title to the property. Assessments receivable are stated without reduction for possible uncollectible amounts. It is management's opinion that all outstanding receivables at December 31, 2011 are collectible.

See accompanying independent auditors' report.

# CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

## Notes to the Financial Statements

December 31, 2011

### Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Estimates

The preparation of financial statements to conformity with generally accepted principles 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.

#### Cash and Cash Equivalents

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

#### 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, landscape, parking, etc. The Association recognizes property at cost. The property and improvements are depreciated over estimated useful lives using the straight-line method.

#### Compensated absences

The Association recognizes a liability for compensated absences under their policy which allows full time employees to carry forward one and one-half times their annual maximum vacation. 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, 2011, \$120,000 was transferred from the Operating Fund to the Replacement Fund.

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, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

See accompanying independent auditors' report.

# CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

## Notes to the Financial Statements

December 31, 2011

### Note 5 INCOME TAXES

The Association qualifies as a Common Interest Realty Association under Section 277 of the Internal Revenue Code. According to Internal Revenue Service (IRS) regulations, membership activities are generally exempt from income taxes and any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income and expenses unrelated to membership activities are subject to federal and state corporate taxes. There are no provisions for income taxes in the current financial statements.

As of December 31, 2011, the Association has federal net operating loss carry forwards totaling \$41,544 as follows:

Expiration Date	Loss Remaining
12/31/2012	\$ 360
12/31/2018	1,169
12/31/2022	8,685
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
TOTAL	<u>\$ 41,544</u>

These carry forwards create a deferred tax asset of approximately \$6,230, however, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

### Note 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$ 108,215
Building	172,058
Vehicles	22,126
Property improvements	261,683
Furniture and equipment	81,511
	<u>645,593</u>
Less: accumulated depreciation	(285,548)
Property and equipment, net of accumulated depreciation	<u>\$ 360,045</u>

Depreciation expense for the year ended December 31, 2011 was \$32,351.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

December 31, 2011

Note 6 PROPERTY AND EQUIPMENT (Continued)

The Association leases office space to the Gunnison County Sheriff's Department for an annual rental of \$1,800.

Note 7 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. The note now matures in December 2021, carries a 5.4% interest rate and has a monthly payment of \$1,198.

The note is reflected on the Balance Sheet as:

Note payable, current portion	\$ 8,599
Note payable, net of current portion	102,288
	<u>\$ 110,887</u>

Principal payments on this note are as follows:

<u>Year</u>	<u>Principal Payment</u>
2012	\$ 8,599
2013	9,075
2014	9,577
2015	10,107
2016	10,667
Thereafter	62,862
Total	<u>\$ 110,887</u>

Note 8 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, 2011 the Association held funds totaling \$21,908 from various owners.

See accompanying independent auditors' report.

**SUPPLEMENTAL INFORMATION**

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

## Statement of Revenues and Expenses- Budget Versus Actual

(non-GAAP)

For the year ended December 31, 2011

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Member assessments	\$ 214,794	\$ 223,000	\$ 8,206
Architectural and closing statement fees	4,900	6,900	2,000
Hockey rink revenues	11,250	14,352	3,102
Interest on deposits	1,050	1,066	16
Donations and grants	1,700	4,016	2,316
Forfeited performance deposits	-	187	187
Other	7,585	9,198	1,613
Total Revenues	<u>241,279</u>	<u>258,719</u>	<u>17,440</u>
<b>EXPENSES</b>			
General and administrative			
Salaries and wages	134,860	129,065	5,795
Legal and consulting	11,850	10,296	1,554
Insurance	7,900	8,510	(610)
Office supplies	2,600	1,522	1,078
Repairs and maintenance	-	45	(45)
Payroll taxes	11,200	11,919	(719)
Electricity	3,900	3,883	17
Legal notices	1,600	1,235	365
Newsletter	300	249	51
Miscellaneous	1,724	8,782	(7,058)
Telephone and internet	1,900	2,287	(387)
Website	2,500	3,752	(1,252)
Employee benefits	6,500	5,200	1,300
Trash, water and sewer	970	970	-
Postage	300	355	(55)
Cleaning	-	10	(10)
Meetings and picnics	3,800	2,921	879
Accounting and tax preparation	400	590	(190)
Maintenance			
Property	10,000	10,776	(776)
Parks and recreational facilities	16,083	19,691	(3,608)
Other			
Depreciation and amortization	-	32,351	(32,351)
Interest and closing expenses	8,800	6,312	2,488
Total Expenses	<u>227,187</u>	<u>260,721</u>	<u>(33,534)</u>
Excess of Revenues			
Over (Under) Expenses	<u>\$ 14,092</u>	<u>\$ (2,002)</u>	<u>\$ (16,094)</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, 2011

The Association engaged Aspen Reserve Specialties to conduct a formal study in 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.

<u>Project Title</u>	<u>Useful life</u>	<u>Remaining Useful Life</u>	<u>Average Cost</u>
Replace metal roof	25	15	\$ 36,300
Repaint building exterior surfaces	6	2	8,250
Gravel parking lot	5	2	10,500
Resurface pathway	24	11	36,550
Replace garage doors	17	11	1,350
Replace doors/windows	10	-	8,250
Replace composite deck	17	12	3,850
Rebuild monument	20	9	17,500
Replace mailboxes	7	3	3,250
Replace wood fencing	17	12	6,800
Replace chain link fencing	27	7	65,763
Replace ranch fencing (A)	25	3	13,500
Replace ranch fencing (B)	25	8	13,500
Replace tennis court asphalt	30	17	38,750
Recoat tennis court	7	2	6,875
Replace basketball court	20	6	12,000
Replace skateboard ramps	8	4	3,400
Replace play equipment	15	10	55,000
Refill tot lot groundcover	3	1	3,200
Replace picnic tables	15	3	5,125
Replace benches	15	1	7,000
Replace hockey rink scoreboard	15	-	12,500
Replace hockey rink boards	20	12	122,500
Rebuild baseball field	23	8	48,750
Replace appliances	12	4	4,625
Replace countertops	18	10	22,250
Remodel Sunset Hall interior	20	10	13,500
Replace office equipment	6	2	7,750
Replace carpeting	10	3	4,875
Rebuild irrigation system	10	1	8,250
Replenish gravel paths	5	1	22,500
Replace truck	10	5	25,000
Replace riding mower - John Deere	12	8	8,250
Replace riding mower - Scotts	12	4	8,250
Replace zamboni	20	-	45,000
Replace snowmobile	10	5	22,500
Replace pressure washer	12	3	5,500
Replace snow blower	10	6	3,375
Renovate warming hut	10	-	3,750
Total			<u>\$ 745,838</u>

See accompanying independent auditors' report on supplemental information.