

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Crested Butte South Property Owners Association, Inc.
Crested Butte, Colorado

We have audited the accompanying financial statements of Crested Butte South Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2013, 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 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 controls 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 Crested Butte South Property Owners Association, Inc. as of December 31, 2013, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McNurlin & Associates P.C.
McNurlin & Associates, P.C.
Lakewood, Colorado
June 30, 2014

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Balance Sheet
December 31, 2013

	<u>Operating</u> <u>Fund</u>	<u>Replacement</u> <u>Fund</u>	(Memo Only) <u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 96,378	\$ 174,931	\$ 271,309
Assessments receivable	8,346	-	8,346
Deposits	11,276	-	11,276
Total Current Assets	<u>116,000</u>	<u>174,931</u>	<u>279,655</u>
Property and Equipment, net	<u>325,357</u>	-	<u>325,357</u>
Total Assets	<u>\$ 441,357</u>	<u>\$ 174,931</u>	<u>\$ 605,012</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Note payable, current portion	9,577	-	9,577
Refundable performance deposits	11,276	-	11,276
Total Current Liabilities	<u>20,853</u>	-	<u>20,853</u>
Note payable, net of current portion	<u>83,818</u>	-	<u>83,818</u>
Total Liabilities	104,671	-	104,671
Fund Balances	<u>336,686</u>	<u>174,931</u>	<u>511,617</u>
Total Liabilities and Fund Balances	<u>\$ 441,357</u>	<u>\$ 174,931</u>	<u>\$ 616,288</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, 2013

	Operating <u>Fund</u>	Replacement <u>Fund</u>	(Memo Only) <u>Total</u>
REVENUES			
Member assessments	\$ 237,290	\$ -	\$ 237,290
Architectural and closing statement fees	9,255	-	9,255
Hockey rink revenues	6,860	-	6,860
Interest on deposits	243	311	554
Donations and grants	2,577	-	2,577
Late fees and other charges	5,639	-	5,639
Rental income	7,147	-	7,147
Other	3,118	-	3,118
Total Revenues	<u>272,129</u>	<u>311</u>	<u>272,440</u>
EXPENSES			
General and administrative			
Salaries and wages	66,922	-	66,922
Legal and accounting	16,877	-	16,877
Insurance	9,882	-	9,882
Office supplies	2,028	-	2,028
Repairs and maintenance	1,140	-	1,140
Payroll taxes	7,835	-	7,835
Electricity	3,623	-	3,623
Newsletter	1,565	-	1,565
Bad debt expense	2,946	-	2,946
Miscellaneous	6,721	-	6,721
Telephone and internet	2,501	-	2,501
Website	2,301	-	2,301
Employee benefits	3,729	-	3,729
Trash, water and sewer	1,023	-	1,023
Postage	404	-	404
Cleaning	547	-	547
Meetings and picnics	3,382	-	3,382
Audit and tax preparation	350	-	350
Maintenance			
Property	32,965	-	32,965
Parks and recreational facilities	15,358	-	15,358
Other			
Depreciation	24,851	-	24,851
Interest expense	5,383	-	5,383
Total Expenses	<u>212,333</u>	<u>-</u>	<u>212,333</u>
Excess of revenues over expenses	59,796	311	60,107
Fund balances, beginning of year	321,890	129,620	451,510
Fund transfer	(45,000)	45,000	-
Fund balances, end of year	<u>\$ 336,686</u>	<u>\$ 174,931</u>	<u>\$ 511,617</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, 2013

	Operating <u>Fund</u>	Replacement <u>Fund</u>	(Memo Only) <u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over expenses	\$ 59,796	\$ 311	\$ 60,107
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	24,851	-	24,851
Bad debt expense	2,946	-	2,946
Change in:			
Assessments receivable	(3,841)	-	(3,841)
Accounts payable	<u>(666)</u>	<u>-</u>	<u>(666)</u>
Net cash provided by operating activities	83,086	311	83,397
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payment on notes payable	(8,993)	-	(8,993)
Fund transfer	<u>(45,000)</u>	<u>45,000</u>	<u>-</u>
Net cash provide by (used in) financing activities	<u>(53,993)</u>	<u>45,000</u>	<u>(8,993)</u>
Net increase in cash and cash equivalents	29,093	45,311	74,404
Cash and cash equivalents, beginning of year	<u>67,285</u>	<u>129,620</u>	<u>196,905</u>
Cash and cash equivalents, end of year	<u>\$ 96,378</u>	<u>\$ 174,931</u>	<u>\$ 271,309</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid			<u>\$ -</u>
Interest paid			<u>\$ 5,383</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, 2013

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 June 30, 2014, 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 (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 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.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2013

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. Vacant land dues were \$155, residential dues were \$309 and commercial dues were \$637 per unit for the year ended December 31, 2013. 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, 2013 are collectible.

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, 2013, \$45,000 was transferred from the Operating Fund to the Replacement Fund. During the year, the Replacement Fund's bank accounts earned \$311 in interest income.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2013

Note 4 FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

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.

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, 2013, the Association's tax years for 2010, 2011 and 2012 are open to examination by taxing authorities.

The Association did not report taxable income for the year ended December 31, 2013.

As of December 31, 2013, the Association has federal net operating loss carry forwards totaling \$54,304 as follows:

<u>Expiration Date</u>	<u>Loss Remaining</u>
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
12/31/2032	6,906
12/31/2033	6,439
TOTAL	<u>\$ 54,529</u>

These carry forwards create a deferred tax asset of approximately \$8,180; however, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2013

Note 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land	\$	108,221
Building		172,058
Parks		155,814
Property improvements		109,841
Furniture and equipment		82,300
Vehicles		22,126
Total property and equipment		650,360
Less: accumulated depreciation		(325,003)
Property and equipment, net	\$	325,357

Depreciation expense for the year ended December 31, 2013 was \$24,851.

The Association leases office space to The Phone Doctor 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. In October 2010, the terms of the note were amended. The note now matures in December 2021, carries a 5.40% interest rate and has a monthly payment of \$1,198.

Future minimum payments of principal and interest are as follows:

	Total Minimum Payments	Less: Interest Expense	Total Principal Payments
For the Years Ending December 31:			
2014	\$ 14,376	\$ 4,799	\$ 9,577
2015	14,376	4,269	10,107
2016	14,376	3,709	10,667
2017	14,376	3,119	11,257
2018	14,376	2,496	11,880
Thereafter through 2021	43,120	3,213	39,907
	\$ 115,000	\$ 21,605	\$ 93,395

See accompanying independent auditors' report.

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

Notes to the Financial Statements

December 31, 2013

Note 7 NOTE PAYABLE (continued)

Current and long-term portion of the note payable at December 31, 2013 are as follows:

Note payable, current portion	\$ 9,577
Note payable, net of current portion	83,818
Total Note payable	<u>\$ 93,395</u>

Total payments of principal and interest were \$8,993 and \$5,383, respectively, for the year ended December 31, 2013

Note 8 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, 2015. Minimum annual lease commitment for the years ending December 31, 2014 and 2015 are \$2,500 per year. The Nordic skiing trails are free of charge to CB South residents, property owners, and their accompanying guests.

Note 9 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, 2013, the Association held funds totaling \$11,276 from various owners.

Note 10 CONCENTRATION OF RISK

The Association maintains its cash balances in one financial institution located in Crested Butte, Colorado. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2013, the Association's uninsured cash balances total \$37,104.

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

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Lakewood, Colorado 80227
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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, 2013, and our report thereon dated June 30, 2014, 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 12 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.

mcn & Associates P.C.

McNurlin & Associates, P.C.
Lakewood, Colorado
June 30, 2014

CRESTED BUTTE SOUTH PROPERTY OWNERS ASSOCIATION, INC.

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

For the year ended December 31, 2013

	Unaudited <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Member assessments	\$ 229,062	\$ 237,290	\$ 8,228
Architectural and closing statement fees	6,000	9,255	3,255
Hockey rink revenues	11,715	6,860	(4,855)
Interest on deposits	751	554	(197)
Donations and grants	1,497	2,577	1,080
Forfeited performance deposits	9,085	-	(9,085)
Late fees and other charges	1,344	5,639	4,295
Rental income	6,912	7,147	235
Other	3,163	3,118	(45)
Total Revenues	<u>269,529</u>	<u>272,440</u>	<u>2,911</u>
EXPENSES			
General and administrative			
Salaries and wages	128,570	66,922	61,648
Legal and accounting	4,948	16,877	(11,929)
Insurance	8,542	9,882	(1,340)
Office supplies	2,638	2,028	610
Repairs and maintenance	518	1,140	(622)
Payroll taxes	11,139	7,835	3,304
Electricity	2,853	3,623	(770)
Newsletter	1,126	1,565	(439)
Bad debt expense	1,924	2,946	(1,022)
Miscellaneous	2,379	6,721	(4,342)
Telephone and internet	2,352	2,501	(149)
Website	3,608	2,301	1,307
Employee benefits	4,200	3,729	471
Trash, water and sewer	935	1,023	(88)
Postage	813	404	409
Cleaning		547	(547)
Meetings and picnics	2,198	3,382	(1,184)
Audit and tax preparation	350	350	-
Maintenance			
Property	11,664	32,965	(21,301)
Parks and recreational facilities	15,697	15,358	339
Other			
Depreciation	14,604	24,851	(10,247)
Interest expense	5,877	5,383	494
Total Expenses	<u>226,935</u>	<u>212,333</u>	<u>14,602</u>
Excess of revenues over expenses	<u>\$ 42,594</u>	<u>\$ 60,107</u>	<u>\$ 17,513</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, 2013

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	2014	2015	2016	2017	2018
Repaint building exterior	1	\$ 9,009	\$ -	\$ -	\$ -	\$ -
Replenish gravel parking lot/path	1	11,466	-	-	-	29,301
Recoat/repaint tennis court	1	7,508	-	-	-	-
Replace office equipment	1	8,463	-	-	-	-
Replace mail boxes	2	-	3,709	-	-	-
Replace ranch fencing	2	-	15,406	-	-	-
Replace picnic tables	2	-	5,848	-	-	-
Replace carpeting	2	-	5,563	-	-	-
Replace pressure washer	2	-	6,277	-	-	-
Replace skateboard ramps	3	-	-	4,055	-	-
Refill tot lot groundcover	3	-	-	3,816	-	-
Replace appliances	3	-	-	5,515	-	-
Replace riding mower (Scotts)	3	-	-	9,838	-	-
Replace truck	4	-	-	-	31,155	-
Replace snowmobile	4	-	-	-	28,039	-
Repair basketball court/skate park	5	-	-	-	-	15,627
Replace snow blower	5	-	-	-	-	4,395
		<u>\$ 36,446</u>	<u>\$ 36,803</u>	<u>\$ 23,224</u>	<u>\$ 59,194</u>	<u>\$ 49,323</u>

This presentation reflects only the next five years of estimated repairs and replacements and, accordingly, does not reflect all future major repairs and replacements.

See accompanying independent auditors' report on supplemental information.