

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

**FINANCIAL STATEMENTS**

**YEAR ENDED SEPTEMBER 30, 2011**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	1
Financial Statements	
Balance Sheet .....	2
Statement of Revenues, Expenses and Changes in Fund Balances .....	3
Statement of Cash Flows .....	4
Notes to the Financial Statements .....	5
Supplemental Information	
Independent Auditors' Report on Supplemental Information .....	9
Statement of Revenues and Expenses- Budget Versus Actual (non-GAAP) .....	10
Supplemental Information on Future Major Repairs and Replacements (Unaudited) .....	11

# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard  
Lakewood, Colorado 80227  
303-988-5648 FAX: 303-988-5919  
don@mcnurlincpa.com

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Mt. Crested Butte - Timberline Condominiums, Inc.  
Mt. Crested Butte, Colorado

We have audited the accompanying balance sheet of Mt. Crested Butte - Timberline Condominiums, Inc. as of September 30, 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 Mt. Crested Butte - Timberline Condominiums, Inc. at September 30, 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.

*McNurlin & Associates P.C.*

McNurlin & Associates, P.C.  
Lakewood, Colorado  
January 28, 2012

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

Balance Sheet  
September 30, 2011

	Operating Fund	Replacement Fund	(Memo only) Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 16,366	\$ 35,669	\$ 52,035
Assessments receivable, net	7,787	-	7,787
Prepaid expenses	3,625	-	3,625
Due from replacement fund	3,948	-	3,948
Total Current Assets	<u>31,726</u>	<u>35,669</u>	<u>67,395</u>
Property & Equipment			
Furniture & equipment	22,403	-	22,403
Less accumulated depreciation	(20,819)	-	(20,819)
Net Property & Equipment	<u>1,584</u>	<u>-</u>	<u>1,584</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 33,310</u></u>	<u><u>\$ 35,669</u></u>	<u><u>\$ 68,979</u></u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 10,356	\$ -	\$ 10,356
Dog security deposits	1,400	-	1,400
Prepaid assessments	8,452	-	8,452
Commercial loan, current portion	-	25,787	25,787
Due to operating fund	-	3,948	3,948
Total Current Liabilities	<u>20,208</u>	<u>29,735</u>	<u>49,943</u>
Long-Term Liabilities			
Commercial loan, net of current portion	-	31,696	31,696
Fund Balances (Deficit)	<u>13,102</u>	<u>(25,762)</u>	<u>(12,660)</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 33,310</u></u>	<u><u>\$ 35,669</u></u>	<u><u>\$ 68,979</u></u>

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

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

**Statement of Revenues, Expenses and Changes in Fund Balances**

For the year ended September 30, 2011

	Operating Fund	Replacement Fund	(Memo only) Total
<b>REVENUES</b>			
Member assessment	\$ 128,827	\$ 31,320	\$ 160,147
Interest income	1	13	14
Late fees	2,509	-	2,509
Miscellaneous income	1,549	-	1,549
<b>TOTAL REVENUES</b>	<b>132,886</b>	<b>31,333</b>	<b>164,219</b>
<b>EXPENSES</b>			
Accounting and audit	1,900	-	1,900
Bad debt expense	12,054	-	12,054
Cable television & internet	10,939	-	10,939
Chimney cleaning	1,723	-	1,723
Common area cleaning	622	-	622
Contract labor	11,484	-	11,484
Depreciation	780	-	780
Electricity	3,886	-	3,886
Fire protection	3,105	-	3,105
Grounds	1,663	-	1,663
Insurance	17,019	-	17,019
Interest expense	3,226	-	3,226
Legal, license, & fees	19	-	19
Maintenance fees & repairs	10,393	-	10,393
Management fees	18,600	-	18,600
Miscellaneous	4,810	-	4,810
Postage	93	-	93
Snow removal	12,085	-	12,085
Trash	4,212	-	4,212
Water & sanitation	24,691	-	24,691
Capital repairs	-	8,354	8,354
<b>TOTAL EXPENSES</b>	<b>143,304</b>	<b>8,354</b>	<b>151,658</b>
Excess of revenues over (under) expenses	(10,418)	22,979	12,561
Beginning fund balances	23,520	(48,741)	(25,221)
Ending Fund Balances (Deficit)	\$ 13,102	\$ (25,762)	\$ (12,660)

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

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

Statement of Cash Flows

For the year ended September 30, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>(Memo only) Total</u>
Cash flows from operating activities:			
Excess revenues over (under) expenses	\$ (10,418)	\$ 22,979	\$ 12,561
Adjustments to reconcile excess of revenues over (under) expenses to cash from operating activities:			
Depreciation	780	-	780
Bad debt expense	12,054	-	12,054
Change in assessments receivable	(3,324)	-	(3,324)
Change in prepaid expenses	721	-	721
Change in accounts payable	6,987	-	6,987
Change in prepaid assessments	5,508	-	5,508
Change in dog security deposits	200	-	200
Change in inter-fund accounts	<u>(18,646)</u>	<u>18,646</u>	<u>-</u>
Net cash flow provided (used) by operating activities	(6,138)	41,625	35,487
Cash flows used in investing activities:			
Property and equipment additions	-	-	-
Cash flows used in financing activities:			
Principal payments on commercial loan	<u>-</u>	<u>(16,611)</u>	<u>(16,611)</u>
Net increase (decrease) in cash	(6,138)	25,014	18,876
Cash at beginning of the year	<u>22,504</u>	<u>10,655</u>	<u>33,159</u>
Cash at end of the year	<u><u>\$ 16,366</u></u>	<u><u>\$ 35,669</u></u>	<u><u>\$ 52,035</u></u>

Supplemental Information:

Cash paid for interest	<u>\$ 3,226</u>
Cash paid for income taxes	<u><u>\$ -</u></u>

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

# **MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

## **Notes to the Financial Statements**

**September 30, 2011**

### **Note 1 NATURE OF ORGANIZATION**

The Mt. Crested Butte - Timberline Condominiums, Inc. (the "Association") is a statutory condominium association organized as a non-profit corporation incorporated in the state of Colorado in January 1980. The Association is responsible for the operation and maintenance of the common property of the Mt. Crested Butte - Timberline Condominiums, Inc., a 32-unit residential condominium complex in Mt. 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 January 28, 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.

#### **Pervasiveness of Estimates**

The preparation of financial statements to conformity with accounting principles generally accepted in the United States of America 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 equivalent.

See accompanying independent auditors' report.

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

Notes to the Financial Statements

September 30, 2011

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

**Member Assessment**

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisition, and major repairs and replacement. 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. Although the Association has the right to enforce the collection of assessments by placing a lien on the underlying title to the property, management has deemed that a portion of assessments may be uncollectible and has established an allowance for doubtful accounts.

Assessments receivable, net is summarized as follows at September 30, 2011:

Assessments receivable	\$ 19,841
Allowance for doubtful accounts	(12,054)
Assessments receivable, net	<u>\$ 7,787</u>

The allowance for doubtful accounts is required to cover expected bad debts associated with one unit. The statement of revenues, expenses and changes in fund balance reflects a bad debt allowance of \$12,054 for the year ended September 30, 2011.

**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 and not by the Association. Accordingly, these assets are not recorded on the Association's financial statements. The common property includes interior common areas, building exteriors, hot tub, landscaping, parking, etc. The Association capitalizes personal property at cost. The personal property is depreciated over an estimated useful life of five years using the straight-line method. Depreciation expense for the year ended September 30, 2011 was \$780.

**Note 4 MANAGEMENT CONTRACTS**

The Association has a contract with Crested Butte Lodging & Property Management, Inc., to manage its daily operations. The contract automatically renews annually. During the year ended September 30, 2011, the Association paid Crested Butte Lodging & Property Management, Inc., \$18,600 in management fees and \$20,681 for maintenance, snow removal and other operational expenses.

The Association owed \$515 to Crested Butte Lodging & Property Management, Inc. as of September 30, 2011.

See accompanying independent auditors' report.



**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

Notes to the Financial Statements

September 30, 2011

**Note 5 FUTURE MAJOR REPAIRS**

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Upon assessment collection, monies are deposited in non-restricted operating accounts and are periodically transferred to the Replacement Fund based on the approved budget and by Board action. During the year ended September 30, 2011 the Association assessed \$31,320 in Replacement Fund dues and expended \$8,354, primarily for spindles and gutter work. Accumulated funds, which aggregated to \$35,669 at September 30, 2011, are held in a savings account and generally are not available for expenditures for normal operations.

The Association has conducted a study to estimate the remaining useful lives and replacement costs of the components of common property and current estimates of costs of future major repairs and replacements however the study is more than three years old. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Replacement Fund may not be adequate to meet future needs. If additional funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or postpone replacements until funds are available. The effect on future assessments has not been determined at this time.

**Note 6 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.

As of September 30, 2011, the Association has a federal net operating loss carry forward of \$44,332 as follows:

September 30, 2019	\$ 37,566
September 30, 2020	615
September 30, 2021	1,511
September 30, 2024	406
September 30, 2028	949
September 30, 2029	1,186
September 30, 2030	1,275
September 30, 2031	824
	<u>\$ 44,332</u>

This carry forward creates a deferred tax asset of approximately \$6,650; 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.

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**

Notes to the Financial Statements

September 30, 2011

**Note 7 RELATED PARTY TRANSACTIONS**

The maintenance director of Crested Butte Lodging & Property Management, Inc. is also an owner and Board member in the Association. This individual does not vote on matters presented to the Board where these might be a conflict of interest.

**Note 8 CARETAKER/ASSOCIATION UNIT**

The Association owns unit 206B which was received from the developer to be used for the on-site caretaker. This unit is owned in common by all Association members and it is maintained by the Association. As a result, no assessments are collected on this unit.

**Note 9 COMMERCIAL LOAN**

During the year ended September 30, 2010, the Association signed a promissory note with Bank of the West and borrowed \$73,973 to pay for the new roof and related repairs. The note is secured by substantially all of the Association's assets and member assessments.

The note has a maturity date of November 10, 2013 and the loan carries an interest rate of 2% per annum in excess of the Bank of the West prime rate with interest adjusted concurrently with changes to the prime rate. At September 30, 2011, the interest rate on the note was 4.49%. Interest expense of \$3,226 was incurred on this note during the year ended September 30, 2011.

The commercial loan is reflected on the Balance Sheet at September 30, 2011 as follows:

Commercial loan, current portion	\$ 25,787
Commercial loan, net of current portion	31,696
	<u>\$ 57,483</u>

Future minimum payments on this note are as follows:

September 30, 2012	\$ 25,787
September 30, 2013	26,969
September 30, 2014	4,727
	<u>\$ 57,483</u>

See accompanying independent auditors' report.

## SUPPLEMENTAL INFORMATION

# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard  
Lakewood, Colorado 80227  
303-988-5648 FAX: 303-988-5919  
don@mcnurlincpa.com

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Mt. Crested Butte - Timberline Condominiums, Inc.  
Mt. Crested Butte, Colorado

We have audited the financial statements of Mt. Crested Butte - Timberline Condominiums, Inc. as of and for the year ended September 30, 2011, and our report thereon dated January 28, 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 the 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 States 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.  
Lakewood, Colorado  
January 28, 2012

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.****Statement of Revenues and Expenses - Budget Versus Actual****(non-GAAP)****For the year ended September 30, 2011**

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Member assessment	\$ 160,147	\$ 160,147	\$ -
Interest income	-	14	14
Late fees	3,000	2,509	(491)
Miscellaneous income	1,134	1,549	415
TOTAL REVENUES	164,281	164,219	(62)
EXPENSES			
Accounting and audit	3,000	1,900	1,100
Bad debt expense	5,400	12,054	(6,654)
Cable television & internet	10,920	10,939	(19)
Chimney cleaning	2,000	1,723	277
Common area cleaning	600	622	(22)
Contract labor	2,400	11,484	(9,084)
Decorations	50	-	50
Depreciation	-	780	(780)
Electricity	5,500	3,886	1,614
Fire protection	4,276	3,105	1,171
Grounds	1,200	1,663	(463)
Insurance	17,373	17,019	354
Interest expense	3,696	3,226	470
Legal, license, & fees	600	19	581
Maintenance fees & repairs	6,600	10,393	(3,793)
Management fees	18,600	18,600	-
Miscellaneous	2,125	4,810	(2,685)
Postage	135	93	42
Printing	100	-	100
Snow removal	18,750	12,085	6,665
Trash	4,200	4,212	(12)
Water & sanitation	25,433	24,691	742
Capital repairs	6,000	8,354	(2,354)
TOTAL EXPENSES	138,958	151,658	(12,700)
EXCESS OF REVENUES OVER EXPENSES	\$ 25,323	\$ 12,561	\$ (12,762)

See accompanying independent auditors' report on supplemental information.

**MT. CRESTED BUTTE - TIMBERLINE CONDOMINIUMS, INC.**  
**Supplemental Information on Future Major Repairs and Replacements (Unaudited)**  
**September 30, 2011**

The Association's management company conducted an informal study in 2006 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 effect of inflation between the date of the study and the date that the components will require repair or replacements.

The following information is based on the study and presents significant information about the components of common property. (Amounts are rounded to the nearest hundred dollars.)

	<u>Last Completed</u>	<u>Life in Years</u>	<u>Estimated Year to Renew</u>	<u>Project Estimate</u>
1. Stain/Paint Trim/Decks/Siding	2000	15	2015	\$ 32,000
2. Replace/Stain Rails	2009	15	2024	8,000
3. Hot Tub Deck	1980	30	*	18,000
4. Hot Tub Shell	1995	10	*	20,000
5. Hot Tub Heater	1995	10	*	3,000
6. Wireless internet equipment	2009	5	2014	2,000
7. Retaining Walls	1980	40	2020	** 175,000
8. Roof (for A and B)	2010	25	2035	150,000
9. Washer/Dryers (2 Pair)	1990	Leased	N/A	5,600
10. Chimney Replacement	1980	30	*	** 160,000
11. Unit Decks	1980	30	*	130,000
12. Siding Replacement	1980	40	2020	150,000
13. Paving / Grading	Never	20	2016	110,000
14. Replace Stairs	1980	35	2015	70,000
				<u>\$ 1,033,600</u>

\* Past time to renew

\*\* Need engineer report

See accompanying independent auditors' report on supplemental information.