

**VILLAGE CENTER CONDOMINIUM ASSOCIATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

VILLAGE CENTER CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Village Center Condominium Association
Mt. Crested Butte, Colorado

We have audited the accompanying financial statements of Village Center Condominium Association, which comprise the balance sheet as of September 30, 2017, 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 Village Center Condominium Association as of September 30, 2017, 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, Hitchcock & Associates, P.C.

McNurlin, Hitchcock & Associates, P.C.
Lakewood, Colorado
January 8, 2018

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Balance Sheet

September 30, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>(Memo Only) Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 43,612	\$ 106,392	\$ 150,004
Assessments receivable, net	58,924	-	58,924
Due from Operating Fund	-	84,592	84,592
Prepaid expenses	2,543	-	2,543
Total Current Assets	<u>105,079</u>	<u>190,984</u>	<u>296,063</u>
Property and Equipment			
Equipment and signs	7,810	-	7,810
Less accumulated depreciation	<u>(7,810)</u>	<u>-</u>	<u>(7,810)</u>
Property and Equipment, net	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 105,079</u></u>	<u><u>\$ 190,984</u></u>	<u><u>\$ 296,063</u></u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Due to Replacement Fund	\$ 84,592	\$ -	\$ 84,592
Current portion of easement	146	-	146
Total Current Liabilities	<u>84,738</u>	<u>-</u>	<u>84,738</u>
Long-Term Liabilities			
Easement, net of current portion	<u>9,222</u>	<u>-</u>	<u>9,222</u>
TOTAL LIABILITIES	<u>93,960</u>	<u>-</u>	<u>93,960</u>
FUND BALANCES	<u>11,119</u>	<u>190,984</u>	<u>202,103</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 105,079</u></u>	<u><u>\$ 190,984</u></u>	<u><u>\$ 296,063</u></u>

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

VILLAGE CENTER CONDOMINIUM ASSOCIATION
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended September 30, 2017

	Operating Fund	Replacement Fund	(Memo Only) Total
REVENUES			
Member assessments	\$ 291,374	\$ -	\$ 291,374
Special assessments	56,000	34,000	90,000
Replacement assessments	-	50,016	50,016
Insurance proceeds	46,507	-	46,507
Snow plowing reimbursement	10,197	-	10,197
Electric reimbursement	2,514	-	2,514
Vending income	1,689	-	1,689
Late fee income	774	-	774
Miscellaneous income	146	-	146
Interest income	-	35	35
TOTAL REVENUES	409,201	84,051	493,252
EXPENSES			
Cable and internet	36,132	-	36,132
Common area cleaning	360	-	360
Conference calls and meetings	430	-	430
Contract labor	5,012	-	5,012
Electricity	16,219	-	16,219
Fire protection	2,283	-	2,283
Grounds and landscaping	18,171	-	18,171
Hot tub repairs and maintenance	12,577	-	12,577
Insurance	30,688	-	30,688
Insurance claim expenses	38,942	-	38,942
Maintenance	34,288	-	34,288
Management fees	28,552	-	28,552
Office expense	818	-	818
Parking lot patrol	7,536	-	7,536
Pest control	18,962	-	18,962
Professional fees	3,583	-	3,583
Snow removal	116,317	-	116,317
Telephone	1,181	-	1,181
Trash removal	14,568	-	14,568
Water and sewer	49,119	-	49,119
Capital expenditures	-	39,425	39,425
TOTAL EXPENSES	435,738	39,425	475,163
Excess of revenues over (under) expenses	(26,537)	44,626	18,089
Fund balances, beginning of year	67,656	116,358	184,014
Fund transfers	(30,000)	30,000	-
Fund balances, end of year	\$ 11,119	\$ 190,984	\$ 202,103

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

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Statement of Cash Flows
For the Year Ended September 30, 2017

	Operating Fund	Replacement Fund	(Memo Only) Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of revenues over (under) expenses	\$ (26,537)	\$ 44,626	\$ 18,089
Adjustments to reconcile excess of revenues over (under) expenses to cash provided by (used in) operating activities:			
Amortization of easement	(146)	-	(146)
Change in:			
Assessments receivable	(45,917)	-	(45,917)
Interfund liabilities	84,592	(84,592)	-
Prepaid expenses	(73)	-	(73)
Accounts payable	(7,124)	-	(7,124)
Prepaid assessments	(3,328)	-	(3,328)
	<u>1,467</u>	<u>(39,966)</u>	<u>(38,499)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,467	(39,966)	(38,499)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Fund transfers	(30,000)	30,000	-
	<u>(30,000)</u>	<u>30,000</u>	<u>-</u>
Net decrease in cash and cash equivalents	(28,533)	(9,966)	(38,499)
Cash and cash equivalents, beginning of year	72,145	116,358	188,503
Cash and cash equivalents, end of year	<u>\$ 43,612</u>	<u>\$ 106,392</u>	<u>\$ 150,004</u>
SUPPLEMENTAL DISCLOSURE:			
Income taxes paid			\$ -
Interest paid			\$ -

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

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 1 NATURE OF ORGANIZATION

The Village Center Condominium Association (the "Association") is a statutory condominium association organized as a non-profit corporation incorporated in the State of Colorado in September 1974. The Association is responsible for the operation and maintenance of the common property of the Village Center Condominium Association, a forty-four residential unit and four commercial unit complex located 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 8, 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, 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.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles required 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.

Member Assessments

Association members are subject to monthly installments of the annual assessment, based on each member's fractional interest in the community, 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, Net

Assessments receivable at the balance sheet date represent amounts due from unit owners. See Note 7.

Collection Policy

Monthly installments of the annual assessment are due on the first day of each month, which become delinquent if not paid within 10 days of the due date. Delinquent assessments bear interest at the rate of eighteen percent (18%) per annum and are assessed a monthly late charge of \$25. Prior to referral to the Association's legal counsel, the Association mails the delinquent owner a notice of the delinquency that specifies the amount due, whether the opportunity to enter into a payment plan exists and instructions for contacting the Association to enter into a payment plan, and that action is required to cure the delinquency within 30 days. If the delinquency is not cured within the stated time, the account is referred to the Association's legal counsel or a collection agency. Under state of Colorado law, the Association's legal counsel is afforded the ability to file and foreclose a lien against the member's property or sue the member for a monetary judgement. All reasonable attorney and collection fees are the responsibility of the member.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prepaid Expenses

Prepaid expenses are expenditures made in advance of when the economic benefit of the cost will be realized, and which will be expensed in future periods.

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. Common property consists of interior common areas, hot tub, decks, walkways, staircases, parking lots, exterior portions of the buildings, roofs, landscaping, etc. The Association capitalizes personal property at cost. The personal property is depreciated over estimated useful lives of five to seven years using the straight-line method. There was no depreciation expense for the year ended September 30, 2017.

Prepaid Assessments

Member assessments received in advance of the period earned, if any, are presented as Prepaid assessments on the Balance Sheet.

Note 4 INCOME TAXES

Homeowner associations may be taxed as regular corporations, subject to the provisions of the 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 September 30, 2017. According to the Internal Revenue Code Section 277 and the 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 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 September 30, 2017, the Association's tax years for 2013, 2014 and 2015 are open to examination by taxing authorities.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 4 INCOME TAXES (Continued)

As of September 30, 2017, the Association has federal net operating losses that expire as follows:

<u>Expiration</u>	<u>Amount</u>
September 30, 2018	\$ 6,409
September 30, 2019	6,582
September 30, 2020	7,161
September 30, 2021	7,474
September 30, 2022	2,642
September 30, 2023	4,306
September 30, 2024	3,343
September 30, 2025	2,924
September 30, 2026	1,919
September 30, 2028	240
September 30, 2029	1,659
September 30, 2030	1,160
September 30, 2031	992
September 30, 2032	1,166
September 30, 2033	1,129
September 30, 2034	1,154
September 30, 2035	1,975
September 30, 2037	732
	<u>\$ 52,967</u>

This carry forward creates a deferred tax asset of approximately \$7,900. However, the Association has established a valuation allowance against the deferred tax asset, resulting in no effect on the accompanying financial statements.

Note 5 MANAGEMENT CONTRACTS

The Association's daily operations are managed by Toad Property Management, Inc. in accordance with a management agreement. The agreement automatically renews annually on November 1st until terminated by either party. The management fee paid to Toad Property Management, Inc. was \$28,552. Significant portions of the expenses incurred by the Association are paid directly to Toad Property Management, Inc. for current operations and maintenance fees. The amount paid for the year ended September 30, 2017 for current operations and maintenance fees was \$105,258. There were no amounts due to Toad Property Management, Inc. at September 30, 2017.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 6 ELECTRIC REIMBURSEMENT

The Association bills Crested Butte Mountain Resort, a commercial unit owner, for 34% of the electricity used in the building where Crested Butte Mountain Resort's unit is located. The total amount billed to Crested Butte Mountain Resort for the year ended September 30, 2017 was \$2,514.

Note 7 ASSESSMENTS RECEIVABLE, NET

Assessments receivable are shown net of an allowance for doubtful accounts at September 30, 2017 as follows:

Assessments receivable	\$ 59,324
Less: Allowance for doubtful accounts	(400)
Assessments receivable, net	<u>\$ 58,924</u>

There was no bad debt expense for the year ended September 30, 2017.

Note 8 CONCENTRATIONS

As of September 30, 2017, three owners accounted for approximately 37% of assessments receivable.

Note 9 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements; however, the Board of Directors of the Association has chosen to accumulate funds. During the year ended September 30, 2017, the Association collected replacement and special assessments for the Replacement Fund totaling \$50,016 and \$34,000, respectively. During that same period, the Replacement Fund expended \$39,425, primarily for internet system infrastructure and asphalt repairs, and received \$30,000 of excess operating funds.

The Association engaged Facilities Advisors International, LLC in 2016 to conduct a formal reserve study to estimate the remaining useful lives and replacement costs of the components of common property, and the current estimates of costs of future major repairs and replacements. Funds are being accumulated in the Replacement Fund based on estimates as determined by this study. 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 all future needs for major repairs and replacements. If additional funds are needed, the Association has the authority to increase regular assessments, levy special assessments, borrow funds, or postpone major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Notes to the Financial Statements

September 30, 2017

Note 10 ARTICHOKE EASEMENT LEASE

The Avalanche Bar & Grill, formerly known as The Artichoke, built retaining walls which encroached onto land owned by the Association known as Emmons Way. In 1982, the Association and the Town of Crested Butte came to an arrangement with The Avalanche Bar & Grill to lease the property from the Association. The Association received \$14,490 in exchange for a 99 year lease which expires on November 30, 2081. Each year, the Association recognizes \$146 in income from this lease, which is reported as Miscellaneous income on the Statement of Revenues, Expenses, and Changes in Fund Balances for the year ended September 30, 2017.

As of September 30, 2017, the current year activity and allocation of current and noncurrent portions of the unearned easement lease are as follows:

Easement, beginning of year	\$ 9,514
Less: Easement recognized during the year	146
Easement, end of year	<u>9,368</u>
Less: Current portion of easement	146
Easement, net of current portion	<u><u>\$ 9,222</u></u>

Note 11 SHARED SNOW PLOWING COSTS

The Ski Center Condominiums Association reimbursed the Association for its share of the cost of snow plowing provided by the Association from December 2016 to March 2017. During this period, reimbursements from the Ski Center Condominiums Association totaled \$10,197, which is reported as Snow plowing reimbursement on the Statement of Revenues, Expenses, and Changes in Fund Balances for the year ended September 30, 2017.

Note 12 SPECIAL ASSESSMENT

During the year ended September 30, 2017, the Board of Directors levied a special assessment in the amount of \$90,000, which is comprised of \$56,000 in the Operating Fund and \$34,000 in the Replacement Fund. The special assessment is due by October 1, 2017 and will be used to replenish funds due to unforeseen operating and capital expenses incurred during the year ended September 30, 2017.

See accompanying independent auditors' report.

VILLAGE CENTER CONDOMINIUM ASSOCIATION
Notes to the Financial Statements
September 30, 2017

Note 13 INSURANCE CLAIM

During the year ended September 30, 2017, a portion of the Association's building exterior was damaged due to snowfall. The Association's insurance provider gave the Association \$46,507 to cover the repair expenses, which is reported as Insurance proceeds on the Statement of Revenues, Expenses and Changes in Fund Balances. The Association incurred repair expenses totaling \$38,942, which is reported as Insurance claim expenses on the Statement of Revenues, Expenses and Changes in Fund Balances. Subsequent to September 30, 2017, the Association received additional insurance proceeds totaling \$42,439 and incurred insurance claim expenses of \$61,538 to finish the project.

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Village Center Condominium Association
Mt. Crested Butte, Colorado

We have audited the financial statements of Village Center Condominium Association as of and for the year ended September 30, 2017, and our report thereon dated January 8, 2018, which expressed an unmodified 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 14 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, Hitchcock & Associates, P.C.

McNurlin, Hitchcock & Associates, P.C.
Lakewood, Colorado
January 8, 2018

VILLAGE CENTER CONDOMINIUM ASSOCIATION
Statement of Revenues and Expenses- Budget Versus Actual (non-GAAP)
For the Year Ended September 30, 2017

	Unaudited Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Member assessments	\$ 279,576	\$ 291,374	\$ 11,798
Special assessments	-	90,000	90,000
Replacement assessments	61,800	50,016	(11,784)
Insurance proceeds	-	46,507	46,507
Snow plowing reimbursement	-	10,197	10,197
Electric reimbursement	-	2,514	2,514
Vending income	1,400	1,689	289
Late fee income	-	774	774
Dumpster fees	600	-	(600)
Miscellaneous income	-	146	146
Interest income	48	35	(13)
Total Revenues	<u>343,424</u>	<u>493,252</u>	<u>149,828</u>
EXPENSES			
Cable and internet	26,488	36,132	(9,644)
Chimney cleaning	2,640	-	2,640
Common area cleaning	5,220	360	4,860
Conference calls and meetings	840	430	410
Contract labor	2,000	5,012	(3,012)
Electricity	17,760	16,219	1,541
Fire protection	3,450	2,283	1,167
Grounds and landscaping	-	18,171	(18,171)
Hot tub repairs and maintenance	11,800	12,577	(777)
Insurance	28,800	30,688	(1,888)
Insurance claim expenses	-	38,942	(38,942)
Maintenance	9,330	34,288	(24,958)
Management fees	28,552	28,552	-
Office expense	926	818	108
Parking lot patrol	7,600	7,536	64
Pest control	-	18,962	(18,962)
Professional fees	4,150	3,583	567
Snow removal	71,315	116,317	(45,002)
Telephone	1,152	1,181	(29)
Trash removal	15,201	14,568	633
Water and sewer	44,400	49,119	(4,719)
Capital expenditures	61,800	39,425	22,375
Total Expenses	<u>343,424</u>	<u>475,163</u>	<u>(131,739)</u>
Excess of expenses over revenues	<u>\$ -</u>	<u>\$ 18,089</u>	<u>\$ 18,089</u>

See accompanying independent auditors' report on supplemental information.

VILLAGE CENTER CONDOMINIUM ASSOCIATION
Supplemental Information on Future Major Repairs and Replacements (Compiled)
September 30, 2017

The Association conducted a formal study in October 2016, 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>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Cost to Repair or Replace</u>
Amenities	7	\$ 24,368
Building Exterior	2-24	3,211,862
Electrical	13-19	53,196
Grounds	0-19	417,639
Interior	3-5	45,830
Plumbing	2	21,537
Total		<u>\$ 3,774,432</u>

See accompanying independent auditors' report on supplemental information.