VILLAGE CENTER CONDOMINIUM ASSOCIATION

FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

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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, 2019, 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, 2019, 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, PC

McNurlin, Hitchcock & Associates, P.C.
May 12, 2020

VILLAGE CENTER CONDOMINIUM ASSOCIATION
Balance Sheet
September 30, 2019

	Operating Fund	Replacement Fund	(Memo Only) Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 90,355	$ 842,734	$ 933,089
Assessments receivable, net	32,593	-	32,593
Special assessments receivable	-	464,898	464,898
Due from Operating Fund	-	40,388	40,388
Prepaid expenses	25,318	-	25,318
Total Current Assets	148,266	1,348,020	1,496,286
TOTAL ASSETS	$ 148,266	$ 1,348,020	$ 1,496,286
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	$ 10,237	$ -	$ 10,237
Construction project payable	-	365,245	365,245
Prepaid dues	8,324	-	8,324
Due to Replacement Fund	40,388	-	40,388
Current portion of easement	146	-	146
Total Current Liabilities	59,095	365,245	424,340
Long-Term Liabilities			
Construction note payable	-	320,000	320,000
Easement, net of current portion	8,929	-	8,929
TOTAL LIABILITIES	68,024	685,245	753,269
FUND BALANCES	80,242	662,775	743,017
TOTAL LIABILITIES AND FUND BALANCES	$ 148,266	$ 1,348,020	$ 1,496,286

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, 2019

	Operating Fund	Replacement Fund	(Memo Only) Total
REVENUES			
Member assessments	$ 253,440	$ 39,442	$ 292,882
Commercial assessments	140,541	-	140,541
Late fees and return check charges	3,889	-	3,889
Interest income	-	2,783	2,783
Miscellaneous income	5,066	-	5,066
Ski center snow plow reimbursement	10,343	-	10,343
Special assessments	150,000	1,498,200	1,648,200
TOTAL REVENUES	563,279	1,540,425	2,103,704
EXPENSES			
Cable and internet	30,819	-	30,819
Chimney	899	-	899
Common area cleaning	4,220	-	4,220
Conference calls and meetings	1,657	-	1,657
Contract labor	4,543	-	4,543
Electricity	21,466	-	21,466
Fire protection	5,632	-	5,632
Grounds and landscaping	4,264	-	4,264
Hot tub repair	12,664	-	12,664
Insurance	131,761	-	131,761
Maintenance labor and supplies	16,815	-	16,815
Management fees	29,160	-	29,160
Miscellaneous expense	90	-	90
Office expense	41,401	-	41,401
Parking lot patrol	13,942	-	13,942
Pest control	2,015	-	2,015
Professional fees	14,249	-	14,249
Snow removal	122,074	-	122,074
Telephone	1,218	-	1,218
Trash removal	18,009	-	18,009
Water and sewer	60,243	-	60,243
Capital expenditures	-	42,771	42,771
Construction project	-	916,466	916,466
TOTAL EXPENSES	537,141	959,237	1,496,378
Revenues over expenses	26,138	581,188	607,326
Fund balances (deficit), beginning of year	(33,485)	169,176	135,691
Fund transfers	87,589	(87,589)	-
Fund balances, end of year	$ 80,242	$ 662,775	$ 743,017

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, 2019

	Operating Fund	Replacement Fund	(Memo Only) Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Revenues over expenses	$ 26,138	$ 581,188	$ 607,326
Adjustments to reconcile revenues over expenses to cash provided by (used in) operating activities:			
Amortization of easement	(147)	-	(147)
(Increase) decrease in assets:			
Assessments receivable, net	(26,994)	-	(26,994)
Special assessments receivable	-	(377,309)	(377,309)
Due from Operating Fund	-	(2,675)	(2,675)
Prepaid expenses	2,801	-	2,801
Increase (decrease) in liabilities:			
Accounts payable	(13,830)	-	(13,830)
Insurance repairs payable	-	(92,559)	(92,559)
Prepaid dues	6,940	-	6,940
Construction project payable	-	365,245	365,245
Due to Replacement Fund	2,675	-	2,675
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(2,417)	473,890	471,473
CASH FLOWS FROM FINANCING ACTIVITIES:			
Draws on note payable	-	320,000	320,000
Fund transfers	87,589	(87,589)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	87,589	232,411	320,000
Net increase in cash and cash equivalents	85,172	706,301	791,473
Cash and cash equivalents, beginning of year	5,183	136,433	141,616
Cash and cash equivalents, end of year	$ 90,355	$ 842,734	$ 933,089
SUPPLEMENTAL DISCLOSURE:			
Income taxes paid			$ -
Interest paid			$ -

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

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 SUBSEQUENT EVENTS AND DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Association has evaluated subsequent events and transactions for potential required recognition or disclosure through the date on the audit report.

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.

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.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Assessments receivable of $32,593 are shown on the balance sheet at September 30, 2019. There was no bad debt expense for the year ended September 30, 2019. The Association also has capital assessments receivable for the year ended September 30, 2019 (see Note 9).The Association has the right to enforce the collection of assessments by foreclosing a lien on the underlying title to the property or filing a lawsuit against the unit owner. As such, no allowance for uncollectible amounts has been recorded as of September 30, 2019.

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.

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. Prepaid expenses of $25,318 for prepaid insurance are shown on the balance sheet for year ended September 30, 2019.

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, 2019.

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, 2019. 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.

Note 4 INCOME TAXES (Continued)

As of September 30, 2019, the Association has a federal net operating loss. 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

For the year ending September 30, 2019, the Association's daily operations are managed by Crested Butte Lodging and Property Management, Inc. (CBL) in accordance with a management agreement. The agreement automatically renews annually on October 1st until terminated by either party. During the year ended September 30, 2019, the management fee paid to CBL was $29,160. Significant portions of the expenses incurred by the Association are paid directly to CBL for current operations and maintenance fees. The amount paid for the year ended September 30, 2019, for current operations and maintenance fees was $62,280. The Association owed CBL $5,416 at September 30, 2019.

During the year ended September 30, 2019, the Association paid the Snow Team CB, Inc. $122,833 for snow removal services and services associated with the construction project, including snow fencing upgrades, roof repairs, and cable installation. There is common ownership between Crested Butte Lodging & Property Management, Inc. and Snow Team CB, Inc. There was no balance owed to Snow Team CB, Inc. at September 30, 2019.

Note 6 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. For the year ended September 30, 2019, the Replacement Fund expended $42,771 for capital expenditures, primarily for retaining wall repairs, laundry room projects, external remodel projects and roof repairs. The Replacement Fund received $39,442 of excess Operating Funds. The Association also incurred costs for a construction project involving major structural repairs and upgrades. Funding for the project was achieved through special assessments from members (See Note 9 for further details).

Note 6 FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

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.

Note 7 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, 2019.

As of September 30, 2019, the current year activity and allocation of current and noncurrent portions of the unearned easement lease are as follows:

Easement, beginning of year	$ 9,221
Less: Easement recognized during the year	146
Easement, end of year	9,075
Less: Current portion of easement	146
Easement, net of current portion	$ 8,929

Note 8 CONCENTRATION

During the year ended September 30, 2019, the Association maintained funds at a financial institution that at times were in excess of FDIC insurance limits.

Note 9 SPECIAL ASSESSMENTS

During the year ended September 30, 2019, the Association levied two special assessments to help with reserve expenses and fund a capital project involving structural upgrades. The first special assessment, known as the special operating assessment, totaled $150,000. The purpose of the special operating assessment was to replenish reserves and provide funds in order to receive a line of credit from the bank to help pay for the construction project. Assessments were due in full by February 15, 2019. As of September 30, 2019, there were no outstanding special operating assessment receivables.

The second special assessment, known as the special capital assessment, totaled $1,498,200. The purpose of this assessment was to pay for the capital construction project involving structure repairs. Owners were given the option to pay the amount in full, due by August 31, 2019, or go onto a 5-year loan repayment plan at 5.69% interest. At September 30, 2019, the Association had $464,898 remaining to be collected for the special capital assessment.

Note 10 CONSTRUCTION NOTE PAYABLE

The Association took out a loan with Community Banks of Colorado, in order to fund the construction project, and enable owners the option to pay off special assessment charges on a 5-year payment plan. The maximum amount of the construction loan is $1,300,000. The construction loan payable totaled $320,000 as of September 30, 2019, as shown on the balance sheet. The loan is secured by a commercial security agreement, which includes future unit owner's dues and assessments. Interest is payable at a rate of 5.54%. The terms of the note include interest only payments, beginning October 3, 2019, followed by monthly principle and interest payments of $18,753 beginning October 3, 2020, which continue until the balance is fully paid off, or for 83 months, when the entire balance is due. Future minimum annual principle payments on the note are as follows:

2019	$ -
2020	212,654
2021	107,346
Total	$ 320,000

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, 2019, and our report thereon dated May 12, 2020, 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 13 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.
May 12, 2020

VILLAGE CENTER CONDOMINIUM ASSOCIATION

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

For the Year Ended September 30, 2019

	Unaudited Budget	Actual	Favorable (Unfavorable) Variance
REVENUES			
Member assessments	$ 307,863	$ 292,882	$ (14,981)
Commercial assessments	140,544	140,541	(3)
Late fees and return check charges	-	3,889	3,889
Interest income	60	2,783	2,723
Miscellaneous income	2,000	5,066	3,066
Ski center snow plow reimbursement	3,000	10,343	7,343
Special assessments	1,648,199	1,648,200	1
Total Revenues	2,101,666	2,103,704	2,038
EXPENSES			
Cable and internet	33,624	30,819	2,805
Chimney	2,800	899	1,901
Common area cleaning	2,500	4,220	(1,720)
Conference calls and meetings	620	1,657	(1,037)
Contract labor	2,000	4,543	(2,543)
Electricity	14,900	21,466	(6,566)
Fire protection	300	5,632	(5,332)
Grounds and landscaping	16,000	4,264	11,736
Hot tub repair	12,000	12,664	(664)
Insurance	105,000	131,761	(26,761)
Maintenance labor and supplies	26,500	16,815	9,685
Management fees	29,160	29,160	-
Miscellaneous expense	-	90	(90)
Office expense	55,323	41,401	13,922
Parking lot patrol	9,200	13,942	(4,742)
Pest control	-	2,015	(2,015)
Professional fees	4,850	14,249	(9,399)
Snow removal	71,500	122,074	(50,574)
Telephone	1,284	1,218	66
Trash removal	15,936	18,009	(2,073)
Water and sewer	54,096	60,243	(6,147)
Window cleaning	1,700	-	1,700
Capital expenditures	12,000	42,771	(30,771)
Construction project	551,221	916,466	(365,245)
Total Expenses	1,022,514	1,496,378	(473,864)
Revenues over expenses	$ 1,079,152	$ 607,326	$ (471,826)

See accompanying independent auditors' report on supplemental information.

VILLAGE CENTER CONDOMINIUM ASSOCIATION

Supplemental Information on Future Major Repairs and Replacements (Compiled)

September 30, 2019

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:

Component	Estimated Remaining Useful Life (Years)	Estimated Cost to Repair or Replace
Amenities	5	$ 24,368
Building Exterior	0-22	3,211,862
Electrical	11-17	53,196
Grounds	0-17	417,639
Interior	1-3	45,830
Plumbing	0	21,537
Total		$ 3,774,432

See accompanying independent auditors' report on supplemental information.