



**MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

**Financial Statements  
and  
Independent Auditors' Report  
October 31, 2018 and 2017**

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

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## **INDEPENDENT AUDITORS' REPORT**

Board of Managers and Owners  
Mountain Haus Condominium Association  
Vail, Colorado

### **REPORT ON FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of Mountain Haus Condominium Association, which are comprised of the balance sheet as of October 31, 2018, and the related statements of operating fund revenues and expenses, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITORS' 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 from 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 the auditors' 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 auditors consider 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 Mountain Haus Condominium Association as of October 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **REPORT ON SUPPLEMENTARY INFORMATION**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules on pages 12 through 14 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **EMPHASIS OF MATTER AND DISCLAIMER OF OPINION ON REQUIRED SUPPLEMENTARY INFORMATION**

Accounting principles generally accepted in the United States of America require that the supplementary information on major repairs and replacements on page 15 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting principles 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 financial statements, and other knowledge we obtained during our audit of the 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.

## **PRIOR YEAR FINANCIAL STATEMENTS**

The 2017 financial statements were audited by EKS&H LLLP, whose report dated December 1, 2017, expressed an unqualified opinion on those statements.



Plante & Moran, PLLC

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Balance Sheets

	October 31,	
	2018	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,282,993	\$ 1,592,636
Accounts receivable	55,865	74,776
Inventories	84,254	67,727
Prepaid expenses	44,986	41,928
Total current assets	<u>1,468,098</u>	<u>1,777,067</u>
Property and equipment		
Building improvements	8,204,701	8,204,701
Equipment	559,330	538,729
Vehicles	13,781	13,781
Construction in progress	154,144	104,798
	8,931,956	8,862,009
Less accumulated depreciation	<u>(6,439,311)</u>	<u>(6,144,857)</u>
Net property and equipment	<u>2,492,645</u>	<u>2,717,152</u>
Total assets	<u><u>\$ 3,960,743</u></u>	<u><u>\$ 4,494,219</u></u>
<b>Liabilities and Fund Balances</b>		
Current liabilities		
Accounts payable		
Trade	\$ 4,418	\$ 25,076
Owners	85,906	35,603
Accrued liabilities		
Payroll and related	33,419	24,751
Accrued bonus	137,522	119,935
Patronage dividend payable to owners	228,378	236,503
Advance reservation deposits	850,772	1,201,040
Total current liabilities	<u>1,340,415</u>	<u>1,642,908</u>
Commitments and contingencies		
Fund balances		
Operating	2,491,591	2,742,802
Capital	128,737	108,509
Total fund balances	<u>2,620,328</u>	<u>2,851,311</u>
Total liabilities and fund balances	<u><u>\$ 3,960,743</u></u>	<u><u>\$ 4,494,219</u></u>

See notes to financial statements.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Statements of Operating Fund Revenues and Expenses

	For the Years Ended October 31,	
	2018	2017
Revenues and assessments		
Room revenue	\$ 4,769,923	\$ 4,809,316
Dues and assessments	983,705	955,050
Interest	4,102	2,392
Maid service	45,735	43,648
Other	49,211	48,833
Total revenues and assessments	<u>5,852,676</u>	<u>5,859,239</u>
Departmental and operating expenses		
Employee	1,976,730	2,044,702
Marketing and guest	354,083	349,573
Administrative and general	337,344	300,833
Utilities	193,581	195,895
Repairs and maintenance	151,631	133,313
Housekeeping	50,590	89,497
Insurance	65,448	81,083
Depreciation, other than assets specially assessed	10,883	19,164
Property taxes	4,787	4,136
Total departmental and operating expenses	<u>3,145,077</u>	<u>3,218,196</u>
Excess of revenues over expenses before fixed charges	<u>2,707,599</u>	<u>2,641,043</u>
Fixed charges		
Depreciation on assets specially assessed	283,571	300,549
Payments to owners for operating results	228,292	236,417
Total fixed charges	<u>511,863</u>	<u>536,966</u>
Excess of revenues over expenses before room revenues credited to rental program participants	2,195,736	2,104,077
Room revenues credited to rental program participants	<u>2,480,123</u>	<u>2,404,658</u>
Deficit of revenues over expenses	<u>\$ (284,387)</u>	<u>\$ (300,581)</u>

See notes to financial statements.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Statement of Changes in Fund Balances For the Years Ended October 31, 2018 and 2017

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
Balance - October 31, 2016	\$ 2,970,493	\$ 34,579	\$ 3,005,072
Special capital assessment	-	419,872	419,872
Repairs and replacements	-	(318,718)	(318,718)
Purchase of property and equipment transferred to and capitalized in operating fund	72,890	(27,224)	45,666
Deficit of revenues over expenses	<u>(300,581)</u>	<u>-</u>	<u>(300,581)</u>
Balance - October 31, 2017	2,742,802	108,509	2,851,311
Special capital assessments	-	427,318	427,318
Repairs and replacements	-	(386,490)	(386,490)
Purchase of property and equipment transferred to and capitalized in operating fund	33,176	(20,600)	12,576
Deficit of revenues over expenses	<u>(284,387)</u>	<u>-</u>	<u>(284,387)</u>
Balance - October 31, 2018	<u>\$ 2,491,591</u>	<u>\$ 128,737</u>	<u>\$ 2,620,328</u>

See notes to financial statements.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Statements of Cash Flows

	For the Years Ended October 31,	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Deficit of revenues over expenses	\$ (284,387)	\$ (300,581)
Adjustments to reconcile deficit of revenues over expenses to net cash (used in) provided by operating activities		
Depreciation	294,454	319,713
Special capital assessments	427,318	419,872
Repairs and replacements	(386,490)	(318,718)
Changes in assets and liabilities		
Accounts receivable	18,911	(29,169)
Inventories	(16,527)	(2,124)
Prepaid expenses	(3,058)	(1,351)
Accounts payable	29,645	(76,672)
Accrued liabilities	26,255	34,935
Patronage dividend payable to owners	(8,125)	157,611
Advance reservation deposits	<u>(350,268)</u>	<u>48,186</u>
Net cash (used in) provided by operating activities	<u>(252,272)</u>	<u>251,702</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(57,371)</u>	<u>(43,245)</u>
Net cash used in investing activities	<u>(57,371)</u>	<u>(43,245)</u>
Net (decrease) increase in cash and cash equivalents	(309,643)	208,457
Cash and cash equivalents - beginning of year	<u>1,592,636</u>	<u>1,384,179</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,282,993</u></u>	<u><u>\$ 1,592,636</u></u>

### Supplemental disclosure of non-cash activity:

During 2018 and 2017, an increase in the operating fund of \$12,756 and \$45,666, respectively, was recorded for fixed assets transferred from the capital fund.

See notes to financial statements.



# **MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

## **Notes to Financial Statements**

### **Note 1 - Description of Business and Summary of Significant Accounting Policies**

Mountain Haus Condominium Association (the "Association"), a non-profit corporation, was incorporated in December 1967 to govern and manage 75 condominium units located in Vail, Colorado. The Association's activities include governing and managing related common areas as well as managing the rental operations of the property, which are described as the Condotel.

The owners of the condominium units may individually elect to offer their units for rent as part of a short-term rental program. Approximately 86% of the owners participate in the rental program. For the years ended October 31, 2018 and 2017, the Association generally retained 48% of short-term room rental revenue received to offset related operating costs and the remaining 52% of short-term room rental revenue was credited to the owners.

Association expenses are allocated between the homeowners' operating fund and rental operation based on an allocation approved by the Board of Managers (the "Board").

#### **Cash and Cash Equivalents**

The Association considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Association continually monitors its positions with, and the credit quality of, the financial institutions with which it invests. As of the balance sheet date, and periodically throughout the year, the Association has maintained balances in various operating accounts in excess of federally insured limits.

#### **Accounts Receivable**

Accounts receivable consist of balances due from owners and in-house guests. The Association has the right to place a lien on the property of owners who are delinquent in their accounts.

#### **Inventories**

Inventories consist primarily of guest amenities and linens for units. Linen inventories are valued as follows: 1/3 at full current cost, 1/3 at 66% of current cost, and 1/3 at 33% of current cost. Guest amenities and maintenance items are stated at the lower of cost or net realizable value, determined using the first-in, first-out method.

#### **Property and Equipment**

The policy of the Association is to capitalize real and personal property at cost on the operating fund to which the Association has separate title or ownership and that may be sold individually or from which significant cash flows can be derived based on usage by owners and non-owners.

Property and equipment are stated at cost. Depreciation is provided utilizing straight-line and accelerated methods over the estimated useful lives for owned assets, which range from 10 to 39 years for building improvements and from 3 to 10 years for furniture, fixtures, and equipment.

# **MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

## **Notes to Financial Statements**

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### Long-Lived Assets

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Association looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired.

#### Advance Reservation Deposits

Advance reservation deposits consist of deposits received for future room rentals and relate primarily to the winter ski season.

#### Fund Accounting

The Association uses fund accounting, which requires the following funds to be classified separately for accounting and reporting purposes:

- An operating fund, which includes resources available for the common area operations and rental operations of the Association.
- A capital fund, which represents resources from amounts specially assessed to owners to fund Board-approved capital expenditures.

#### Revenue Recognition

Dues are assessed monthly to owners, in accordance with the Association's declarations, at an amount determined by the budget and approved by the Board. Room revenue is recognized as lodging is provided.

#### Advertising Costs

The Association expenses advertising costs as incurred. Advertising expense for the years ended October 31, 2018 and 2017 was \$67,071 and \$95,403, respectively.

#### Income Taxes

The Association does not qualify to be treated as an association exempt from income taxes pursuant to Internal Revenue Code ("IRC") Section 528. Although the Association is a non-profit corporation, it is subject to income tax, essentially in the same manner as a regular business corporation. The rental operations flow through and are taxed individually to the owners and, therefore, are not included on the corporate tax returns of the Association.

# **MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

## **Notes to Financial Statements**

### **Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)**

#### **Income Taxes (continued)**

The Association applies a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of October 31, 2018 and 2017. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as administrative and general expense. No interest or penalties have been assessed as of October 31, 2018 and 2017.

#### **Concentration Risks**

A significant portion of the Association's revenue is derived during the winter months. If the Vail area were to experience a significant decline in snowfall, it could have a significant impact on the Association's rental revenue.

#### **Use of Estimates**

The preparation of financial statements in 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 disclosures 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.

#### **Subsequent Events**

The Association has evaluated all subsequent events through the auditor's report date, which is the date the financial statements were available to be issued, and has determined that there are no events requiring disclosure.

### **Note 2 - Special Assessments**

The Board has historically elected not to fund capital expenditures in advance, but rather assess owners, at the Board's discretion, as the funds are necessary. For the years ended October 31, 2018 and 2017, special capital assessments for capital improvements were \$427,318 and \$419,872, respectively.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Notes to Financial Statements

### **Note 3 - Patronage Dividend**

At the end of each fiscal year, the Association has historically refunded or billed any taxable excess (deficit) to the owners and rental participants as a patronage dividend. Taxable revenue in excess of expenses consists of the following:

	October 31,	
	2018	2017
Condotel	\$ 231,196	\$ 230,373
Association	(2,904)	6,044
Total	<u>\$ 228,292</u>	<u>\$ 236,417</u>

### **Note 4 - Commitments and Contingencies**

#### Retirement Plans

The Association has adopted a simplified employee pension plan (the "Plan") under Section 401(k) of the IRC. Under the Plan, each employee, as defined, can elect to make salary reduction payments to individual retirement accounts. The Association matched 50% of the participant deferrals, up to 4% of the employee's contribution, with a total matching contribution of \$13,725 and \$13,502 for the years ended October 31, 2018 and 2017, respectively.

The Plan also provides for an annual discretionary contribution by the Association. For the years ended October 31, 2018 and 2017, no discretionary contributions were made by the Association.

#### Employment Contracts

The Association has employment contracts with key management personnel, which require lump-sum payments if employment is terminated by the Association.

## **SUPPLEMENTARY INFORMATION**

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Combining Statement of Operating Fund Revenues and Expenses For the Year Ended October 31, 2018

	<u>Association</u>	<u>Condotel</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and assessments				
Room revenue	\$ -	\$ 4,769,923	\$ -	\$ 4,769,923
Dues and assessments	983,705	-	-	983,705
Interest	-	4,102	-	4,102
Maid service	-	45,735	-	45,735
Other	<u>39,244</u>	<u>46,671</u>	<u>(36,704)</u>	<u>49,211</u>
Total revenues and assessments	<u>1,022,949</u>	<u>4,866,431</u>	<u>(36,704)</u>	<u>5,852,676</u>
Departmental and operating expenses				
Employee	547,482	1,429,248	-	1,976,730
Marketing and guest	3,827	362,256	(12,000)	354,083
Administrative and general	70,852	270,736	(4,244)	337,344
Utilities	192,817	764	-	193,581
Repairs and maintenance	151,631	-	-	151,631
Housekeeping	-	71,050	(20,460)	50,590
Insurance	55,455	9,993	-	65,448
Depreciation, other than assets specially assessed	-	10,883	-	10,883
Property taxes	<u>3,789</u>	<u>998</u>	<u>-</u>	<u>4,787</u>
Total departmental and operating expenses	<u>1,025,853</u>	<u>2,155,928</u>	<u>(36,704)</u>	<u>3,145,077</u>
Excess of revenues over expenses before fixed charges	<u>(2,904)</u>	<u>2,710,503</u>	<u>-</u>	<u>2,707,599</u>
Fixed charges				
Depreciation on assets specially assessed	283,571	-	-	283,571
Payments to owners for operating results	<u>(2,904)</u>	<u>231,196</u>	<u>-</u>	<u>228,292</u>
Total fixed charges	<u>280,667</u>	<u>231,196</u>	<u>-</u>	<u>511,863</u>
(Deficit) excess of revenues over expenses before room revenues credited to rental program participants	(283,571)	2,479,307	-	2,195,736
Room revenues credited to rental program participants	<u>-</u>	<u>2,480,123</u>	<u>-</u>	<u>2,480,123</u>
Deficit of revenues over expenses	<u>\$ (283,571)</u>	<u>\$ (816)</u>	<u>\$ -</u>	<u>\$ (284,387)</u>

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Schedule of Condotel Operating Expenses

		For the Years Ended October 31,	
	Budget 2018 (Unaudited)	2018	2017
Employee			
Laundry and housekeeping wages	\$ 543,103	\$ 511,844	\$ 477,964
Payroll taxes and benefits	339,426	307,124	445,424
Back office wages	311,461	332,108	327,927
Front office wages	134,584	110,262	111,210
Management bonus	85,551	115,283	98,167
Maintenance wages	<u>52,217</u>	<u>52,627</u>	<u>55,205</u>
Total employee	<u>\$ 1,466,342</u>	<u>\$ 1,429,248</u>	<u>\$ 1,515,897</u>
Marketing and guest			
Guest services	\$ 149,740	\$ 186,288	\$ 152,235
Marketing and advertising	123,975	67,071	95,403
Travel agent commissions	37,600	15,539	33,222
Cable television	35,958	40,103	32,317
Dues and subscriptions	17,600	18,062	19,177
Conference rent	12,000	12,000	12,000
Rating survey	7,500	7,775	7,025
Printing and mailing	6,390	16,915	2,903
Telephone	1,650	(3,142)	1,835
Promotions and entertainment	<u>1,500</u>	<u>1,632</u>	<u>63</u>
Total marketing and guest	<u>\$ 393,913</u>	<u>\$ 362,243</u>	<u>\$ 356,180</u>
Administrative and general			
Credit card commissions	\$ 126,700	\$ 130,907	\$ 134,363
Data processing	26,142	55,754	26,853
Professional fees	25,700	20,085	21,257
Other office expense	16,400	30,081	22,043
Parking	10,900	10,900	12,500
Telephone	9,495	6,453	7,650
Automobile	6,360	3,830	4,733
Uniforms	5,050	6,419	2,147
Office rent	4,244	4,244	4,244
Postage and printing	<u>3,260</u>	<u>2,039</u>	<u>1,972</u>
Total administrative and general	<u>\$ 234,251</u>	<u>\$ 270,712</u>	<u>\$ 237,762</u>
Utilities	<u>\$ 764</u>	<u>\$ 764</u>	<u>\$ 761</u>
Housekeeping			
Cleaning supplies	\$ 54,800	\$ 48,717	\$ 57,397
Laundry rent	20,460	20,460	20,460
Linens	10,000	(3,600)	26,600
Kitchen supplies	<u>5,500</u>	<u>5,473</u>	<u>5,500</u>
Total housekeeping	<u>\$ 90,760</u>	<u>\$ 71,050</u>	<u>\$ 109,957</u>

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Schedule of Common Area Expenses

		For the Years Ended October 31,	
	Budget 2018 (Unaudited)	2018	2017
Employee			
Back office wages	\$ 173,580	\$ 196,410	\$ 207,403
Front office wages	112,713	112,713	108,971
Payroll taxes and benefits	92,479	115,611	107,569
Maintenance wages	61,374	61,374	52,431
Laundry and housekeeping wages	<u>61,374</u>	<u>61,374</u>	<u>52,431</u>
Total employee	<u>\$ 501,520</u>	<u>\$ 547,482</u>	<u>\$ 528,805</u>
Administrative and general			
Professional fees	\$ 33,940	\$ 22,351	\$ 26,011
Directors	12,840	17,495	14,102
Data processing and facsimile	10,800	10,800	10,800
Office supplies	7,200	7,200	7,200
Telephone	4,920	4,920	4,920
Parking	4,600	6,450	2,650
Postage and printing	1,500	1,500	1,612
Automobile	<u>-</u>	<u>136</u>	<u>-</u>
Total administrative and general	<u>\$ 75,800</u>	<u>\$ 70,852</u>	<u>\$ 67,295</u>
Utilities			
Gas and electric	\$ 105,407	\$ 96,433	\$ 94,580
Water and sewer	76,600	74,474	78,943
Trash removal	<u>22,100</u>	<u>21,910</u>	<u>21,611</u>
Total utilities	<u>\$ 204,107</u>	<u>\$ 192,817</u>	<u>\$ 195,134</u>
Repairs and maintenance			
Repairs and maintenance	\$ 103,288	\$ 123,380	\$ 102,556
Elevator	20,910	20,857	20,910
Swimming pool	4,800	4,252	5,705
Decorating	4,200	3,142	4,142
Plumbing and electrical	<u>1,200</u>	<u>-</u>	<u>-</u>
Total repairs and maintenance	<u>\$ 134,398</u>	<u>\$ 151,631</u>	<u>\$ 133,313</u>



## MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

### Supplementary Information on Major Repairs and Replacements For the Year Ended October 31, 2018 (Unaudited)

The Board estimates the remaining useful lives and the replacement costs of the components of common property based on estimated replacement dates and lives of common property. The following table is based on management's estimates and presents significant information about the components of common property. The estimates were derived by management. Actual expenditures may vary from the estimated amounts and the variations could be material. Estimated replacement costs have been discounted to represent current values at October 31, 2018 using a 2% inflation factor.

	<u>Estimated Remaining Useful Lives</u>	<u>Total Estimated Replacement Costs</u>	<u>Amount Funded</u>
Building	1-20 years	\$ 2,269,740	\$ -
Roof replacement	7 years	550,000	-
Spa, hot tub, and exercise room upgrades	1-20 years	479,606	-
Entrance upgrades	3-16 years	460,000	-
Lobby upgrades	3-11 years	110,000	-
Conference room upgrades	6-13 years	61,500	-
Office furnishings and computers	1-7 years	59,250	-
Unallocated		<u>-</u>	<u>128,737</u>
		<u>\$ 3,990,096</u>	<u>\$ 128,737</u>