



**MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

**Financial Statements,  
Accompanying Information,  
and  
Independent Auditors' Report  
October 31, 2013 and 2012**

**EKS&H**  
AUDIT | TAX | CONSULTING

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Mountain Haus Condominium Association, which are comprised of the balance sheets as of October 31, 2013 and 2012, and the related statements of operating fund revenues and expenses, changes in fund balances, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

Our audits were 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 audits 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.

The supplementary information on future major repairs and replacements on page 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*EKS&H LLLP*  
EKS&H LLLP

December 4, 2013  
Denver, Colorado

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Balance Sheets

	October 31,	
	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 882,994	\$ 887,518
Accounts receivable	35,777	51,044
Inventories	54,629	59,195
Prepaid expenses	50,869	17,300
Total current assets	1,024,269	1,015,057
Property and equipment		
Building improvements	7,368,738	7,501,999
Equipment	480,131	407,886
Construction in progress	13,749	3,350
	7,862,618	7,913,235
Less accumulated depreciation	(4,742,012)	(4,803,911)
Net property and equipment	3,120,606	3,109,324
Total assets	\$ 4,144,875	\$ 4,124,381
<b>Liabilities and Fund Balances</b>		
Current liabilities		
Accounts payable		
Trade	\$ 31,492	\$ 25,026
Owners	47,940	38,947
Accrued liabilities		
Payroll and related	5,541	9,166
Accrued bonus	67,630	69,641
Accrued expenses	2,163	5,830
Patronage dividend payable to owners	14,568	29,961
Advance reservation deposits	763,977	722,334
Total current liabilities	933,311	900,905
Commitments and contingencies		
Fund balances		
Operating	3,187,964	3,184,813
Capital	23,600	38,663
Total fund balances	3,211,564	3,223,476
Total liabilities and fund balances	\$ 4,144,875	\$ 4,124,381

See notes to financial statements.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Statements of Operating Fund Revenues and Expenses

	For the Years Ended	
	October 31,	
	<u>2013</u>	<u>2012</u>
Revenues and assessments		
Room revenue	\$ 3,697,749	\$ 3,683,067
Dues and assessments	880,872	855,216
Interest	3,701	3,665
Maid service	29,145	32,022
Other	<u>52,998</u>	<u>93,996</u>
Total revenues and assessments	<u>4,664,465</u>	<u>4,667,966</u>
Departmental and operating expenses		
Employee	1,634,329	1,622,077
Marketing and guest	320,804	344,777
Administrative and general	269,075	258,026
Utilities	187,813	192,737
Repairs and maintenance	122,627	124,144
Insurance	108,696	91,356
Housekeeping	68,818	77,786
Depreciation, other than assets specially assessed	10,902	6,602
Property taxes	<u>4,075</u>	<u>4,126</u>
Total departmental and operating expenses	<u>2,727,139</u>	<u>2,721,631</u>
Excess of revenues over expenses before fixed charges	<u>1,937,326</u>	<u>1,946,335</u>
Fixed charges		
Depreciation on assets specially assessed	370,735	309,834
Payments to owners for operating results	14,568	29,961
Loss on disposal of assets	<u>26,943</u>	<u>1,562</u>
Total fixed charges	<u>412,246</u>	<u>341,357</u>
Excess of revenues over expenses before room revenues credited to rental program participants	1,525,080	1,604,978
Room revenues credited to rental program participants	<u>1,922,829</u>	<u>1,915,195</u>
Deficit of revenues over expenses	<u>\$ (397,749)</u>	<u>\$ (310,217)</u>

See notes to financial statements.

**MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

**Statement of Changes in Fund Balances  
For the Years Ended October 31, 2013 and 2012**

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
Balance - October 31, 2011	\$ 3,258,796	\$ (34,753)	\$ 3,224,043
Special capital assessments	-	309,650	309,650
Purchase of property and equipment transferred to and capitalized in operating fund	236,234	(236,234)	-
Deficit of revenues over expenses	<u>(310,217)</u>	<u>-</u>	<u>(310,217)</u>
Balance - October 31, 2012	3,184,813	38,663	3,223,476
Special capital assessments	-	385,837	385,837
Purchase of property and equipment transferred to and capitalized in operating fund	400,900	(400,900)	-
Deficit of revenues over expenses	<u>(397,749)</u>	<u>-</u>	<u>(397,749)</u>
Balance - October 31, 2013	<u>\$ 3,187,964</u>	<u>\$ 23,600</u>	<u>\$ 3,211,564</u>

See notes to financial statements.

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Statements of Cash Flows

	For the Years Ended	
	October 31,	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Deficit of revenues over expenses	\$ (397,749)	\$ (310,217)
Adjustments to reconcile deficit of revenues over expenses to net cash provided by (used in) operating activities		
Depreciation	381,637	316,436
Loss on retirement of property and equipment	26,943	1,562
Changes in assets and liabilities		
Accounts receivable	15,267	5,542
Inventories	4,566	3,628
Prepaid expenses	(33,569)	9,922
Accounts payable	15,459	(9,029)
Accrued liabilities	(9,303)	(3,775)
Patronage dividend payable to owners	(15,393)	20,126
Advance reservation deposits	41,643	(58,675)
	<u>427,250</u>	<u>285,737</u>
Net cash provided by (used in) operating activities	<u>29,501</u>	<u>(24,480)</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(419,862)</u>	<u>(252,858)</u>
Net cash used in investing activities	<u>(419,862)</u>	<u>(252,858)</u>
Cash flows from financing activities		
Special capital assessments	<u>385,837</u>	<u>309,650</u>
Net cash provided by financing activities	<u>385,837</u>	<u>309,650</u>
Net (decrease) increase in cash and cash equivalents	(4,524)	32,312
Cash and cash equivalents - beginning of year	<u>887,518</u>	<u>855,206</u>
Cash and cash equivalents - end of year	<u>\$ 882,994</u>	<u>\$ 887,518</u>

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 88% of the owners participate in the program. For the years ended October 31, 2013 and 2012, the Association generally retained 48% of short-term room rental revenue received to offset related operating costs. 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 ("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 market, 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 which 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, 2013 and 2012 was \$94,309 and \$113,848, 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 not-for-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, 2013 and 2012. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as general and administrative expense. No interest or penalties have been assessed as of October 31, 2013 and 2012. Tax years that remain subject to examination include 2010 through the current year.

#### 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 huge 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, 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 for issuance, 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, 2013 and 2012, special capital assessments for capital improvements were \$385,837 and \$309,650, 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,	
	2013	2012
Condotel Association	\$ 10,106	\$ 23,704
	<u>4,462</u>	<u>6,257</u>
Total	<u>\$ 14,568</u>	<u>\$ 29,961</u>

### Note 4 - Commitments and Contingencies

#### Litigation

The Association is currently involved in litigation initiated by an individual owner against the Association. This case began in April of 2013 and is pending trial in 2014. The Association is recording legal expenses relating to this matter as an asset within the prepaid expenses, reflected on the balance sheets, in anticipation of either court-ordered reimbursement by the plaintiff or a Special Assessment due owners of record upon conclusion of the case.

#### 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 \$14,883 and \$15,797 for the years ended October 31, 2013 and 2012, respectively.

The Plan also provides for an annual discretionary contribution by the Association. For the years ended October 31, 2013 and 2012, 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.

**ACCOMPANYING INFORMATION**

**MOUNTAIN HAUS CONDOMINIUM ASSOCIATION**

**Combining Statement of Operating Fund Revenues and Expenses  
For the Year Ended October 31, 2013**

	<u>Association</u>	<u>Condotel</u>	<u>Eliminations</u>	<u>Total</u>
Revenues and assessments				
Room revenue	\$ -	\$ 3,697,749	\$ -	\$ 3,697,749
Dues and assessments	880,872	-	-	880,872
Interest	-	3,701	-	3,701
Maid service	-	29,145	-	29,145
Other	<u>37,920</u>	<u>51,865</u>	<u>(36,787)</u>	<u>52,998</u>
Total revenues and assessments	<u>918,792</u>	<u>3,782,460</u>	<u>(36,787)</u>	<u>4,664,465</u>
Departmental and operating expenses				
Employee	452,222	1,182,107	-	1,634,329
Marketing and guest	1,654	331,150	(12,000)	320,804
Administrative and general	63,295	210,107	(4,327)	269,075
Utilities	187,064	749	-	187,813
Repairs and maintenance	122,627	-	-	122,627
Insurance	84,006	24,690	-	108,696
Housekeeping	-	89,278	(20,460)	68,818
Depreciation, other than assets specially assessed	-	10,902	-	10,902
Property taxes	<u>3,468</u>	<u>607</u>	<u>-</u>	<u>4,075</u>
Total departmental and operating expenses	<u>914,336</u>	<u>1,849,590</u>	<u>(36,787)</u>	<u>2,727,139</u>
Excess of revenues over expenses before fixed charges	<u>4,456</u>	<u>1,932,870</u>	<u>-</u>	<u>1,937,326</u>
Fixed charges				
Depreciation on assets specially assessed	370,735	-	-	370,735
Payments to owners for operating results	4,462	10,106	-	14,568
Loss on disposal of assets	<u>26,943</u>	<u>-</u>	<u>-</u>	<u>26,943</u>
Total fixed charges	<u>402,140</u>	<u>10,106</u>	<u>-</u>	<u>412,246</u>
(Deficit) excess of revenues over expenses before room revenues credited to rental program participants	(397,684)	1,922,764	-	1,525,080
Room revenues credited to rental program participants	<u>-</u>	<u>1,922,829</u>	<u>-</u>	<u>1,922,829</u>
Deficit of revenues over expenses	<u>\$ (397,684)</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ (397,749)</u>

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Schedule of Condotel Operating Expenses

	Budget 2013 (Unaudited)	For the Years Ended October 31,	
		2013	2012
Employee			
Laundry and housekeeping wages	\$ 379,643	\$ 348,728	\$ 372,004
Payroll taxes and benefits	270,620	307,478	287,897
Back office wages	287,815	293,055	281,101
Front office wages	123,801	117,034	133,076
Management bonus	65,372	64,160	66,672
Maintenance wages	<u>52,383</u>	<u>51,652</u>	<u>47,571</u>
Total employee	<u>\$ 1,179,634</u>	<u>\$ 1,182,107</u>	<u>\$ 1,188,321</u>
Marketing and guest			
Guest services	\$ 121,294	\$ 141,028	\$ 157,550
Marketing and advertising	109,993	94,309	113,848
Cable television	32,352	31,778	33,506
Travel agent commissions	14,000	33,966	16,749
Conference rent	12,000	12,000	12,000
Printing and mailing	9,700	4,245	7,724
Rating survey	6,110	6,200	6,110
Dues and subscriptions	7,500	7,412	5,857
Telephone	1,850	70	2,668
Promotions and entertainment	<u>1,800</u>	<u>142</u>	<u>765</u>
Total marketing and guest	<u>\$ 316,599</u>	<u>\$ 331,150</u>	<u>\$ 356,777</u>
Administrative and general			
Credit card commissions	\$ 93,000	\$ 91,572	\$ 92,342
Data processing	22,560	22,633	24,697
Other office expense	23,392	32,592	24,565
Professional fees	16,250	16,225	15,625
Parking	10,610	10,610	11,325
Automobile	11,340	13,696	9,370
Telephone	9,600	8,187	8,895
Condotel - uniforms	5,350	5,201	6,139
Postage and printing	4,500	5,064	4,742
Office rent	<u>4,327</u>	<u>4,327</u>	<u>4,327</u>
Total administrative and general	<u>\$ 200,929</u>	<u>\$ 210,107</u>	<u>\$ 202,027</u>
Utilities	<u>\$ 749</u>	<u>\$ 749</u>	<u>\$ 737</u>
Housekeeping			
Cleaning supplies	\$ 35,200	\$ 47,971	\$ 40,659
Linens	10,000	9,215	29,292
Laundry rent	20,460	20,460	20,460
Kitchen supplies	<u>5,000</u>	<u>11,632</u>	<u>7,835</u>
Total housekeeping	<u>\$ 70,660</u>	<u>\$ 89,278</u>	<u>\$ 98,246</u>

# MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

## Schedule of Common Area Expenses

	Budget 2013 (Unaudited)	For the Years Ended October 31,	
		<u>2013</u>	<u>2012</u>
Employee			
Back office wages	\$ 161,750	\$ 170,075	\$ 168,173
Payroll taxes and benefits	82,442	94,595	94,627
Front office wages	95,450	95,450	75,496
Maintenance wages	46,051	46,051	47,730
Laundry and housekeeping wages	<u>46,051</u>	<u>46,051</u>	<u>47,730</u>
Total employee	<u>\$ 431,744</u>	<u>\$ 452,222</u>	<u>\$ 433,756</u>
Administrative and general			
Professional fees	\$ 22,650	\$ 22,862	\$ 21,028
Directors	12,100	9,746	12,383
Office supplies	7,200	7,200	7,200
Data processing and facsimile	9,600	11,784	6,925
Telephone	4,800	4,800	4,800
Bad debt	-	-	2,252
Automobile	-	2,963	2,023
Parking	4,940	2,740	1,975
Postage and printing	<u>1,320</u>	<u>1,200</u>	<u>1,740</u>
Total administrative and general	<u>\$ 62,610</u>	<u>\$ 63,295</u>	<u>\$ 60,326</u>
Utilities			
Gas and electric	\$ 110,461	\$ 105,197	\$ 110,823
Water and sewer	65,350	65,149	64,465
Trash removal	<u>17,450</u>	<u>16,718</u>	<u>16,712</u>
Total utilities	<u>\$ 193,261</u>	<u>\$ 187,064</u>	<u>\$ 192,000</u>
Repairs and maintenance			
Repairs and maintenance	\$ 88,019	\$ 91,243	\$ 96,455
Elevator	19,100	21,776	17,653
Swimming pool	4,200	3,616	6,206
Decorating	4,050	3,740	3,830
Plumbing and electrical	<u>1,200</u>	<u>2,252</u>	<u>-</u>
Total repairs and maintenance	<u>\$ 116,569</u>	<u>\$ 122,627</u>	<u>\$ 124,144</u>



## MOUNTAIN HAUS CONDOMINIUM ASSOCIATION

### Supplementary Information on Major Repairs and Replacements For the Year Ended October 31, 2013 (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. Estimated replacement costs have been discounted to represent current values at October 31, 2013 using a 2% inflation factor.

	<u>Estimated Remaining Useful Lives</u>	<u>Total Estimated Replacement Costs</u>	<u>Amount Funded</u>
Building	2 - 6 years	\$ 2,154,500	\$ -
Roof replacement	3 years	125,000	-
Hallway upgrades	5 years	440,000	-
Lobby upgrades	6 years	145,000	-
Office furnishings and computers	5 years	59,250	-
Entrance upgrades	6 years	468,000	-
Spa, hot tub, and exercise room upgrades	1 - 5 years	1,083,831	-
Conference room upgrades	5 years	<u>43,500</u>	<u>-</u>
		<u>\$ 4,519,081</u>	<u>\$ -</u>