
Mountain Haus Condominium Association

**Financial Report
with Supplemental Information
October 31, 2019 and 2018**

Mountain Haus Condominium Association

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Independent Auditor's Report

To the Board of Managers and Owners
Mountain Haus Condominium Association

We have audited the accompanying financial statements of Mountain Haus Condominium Association (the "Association"), which comprise the balance sheet as of October 31, 2019 and 2018 and the related statements of operating fund revenue 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.

Auditor's 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 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 Mountain Haus Condominium Association as of October 31, 2019 and 2018 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.



November 29, 2019

Mountain Haus Condominium Association

Balance Sheet

October 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,181,698	\$ 1,282,993
Accounts receivable	63,754	55,865
Inventory	98,740	84,254
Prepaid expenses	83,675	44,986
Total current assets	1,427,867	1,468,098
Property and Equipment		
Building improvements	8,204,701	8,204,701
Equipment	561,982	559,330
Vehicles	13,781	13,781
Construction in progress	503,494	154,144
Total property and equipment	9,283,958	8,931,956
Less accumulated depreciation	6,720,722	6,439,311
Net property and equipment	2,563,236	2,492,645
Total assets	\$ 3,991,103	\$ 3,960,743
Liabilities and Fund Balances		
Current Liabilities		
Accounts payable:		
Trade accounts payable	\$ 18,751	\$ 4,418
Owners payable	125,627	85,906
Bank line of credit	331,586	-
Patronage dividend payable to owners	87,487	228,378
Advance reservation deposits	878,763	850,772
Accrued liabilities:		
Payroll and related	40,033	33,419
Accrued bonus	106,681	137,522
Total current liabilities	1,588,928	1,340,415
Fund Balances		
Operating	2,262,142	2,491,591
Capital	140,033	128,737
Total fund balances	2,402,175	2,620,328
Total liabilities and fund balances	\$ 3,991,103	\$ 3,960,743

Mountain Haus Condominium Association

Statement of Operating Fund Revenue and Expenses

Years Ended October 31, 2019 and 2018

	2019	2018
Revenue and Assessments		
Room revenue	\$ 4,482,200	\$ 4,769,923
Dues and assessments	1,013,215	983,705
Interest	6,211	4,102
Maid service	46,268	45,735
Other	44,188	49,211
Total revenue and assessments	5,592,082	5,852,676
Departmental and Operating Expenses		
Employee	1,991,221	1,976,730
Marketing and guest	351,463	354,083
Administrative and general	332,918	337,344
Utilities	192,334	193,581
Repairs and maintenance	153,572	151,631
Housekeeping	68,272	50,590
Insurance	74,116	65,448
Depreciation, other than assets specially assessed	12,143	10,883
Property taxes	4,720	4,787
Total departmental and operating expenses	3,180,759	3,145,077
Excess of Revenue Over Expenses - Before fixed charges	2,411,323	2,707,599
Fixed Charges		
Depreciation on assets specially assessed	269,268	283,571
Payments to owners for operating results	79,577	228,292
Total fixed charges	348,845	511,863
Excess of Revenue Over Expenses - Before room revenue credited to rental program participants	2,062,478	2,195,736
Room Revenue Credited to Rental Program Participants	2,329,981	2,480,123
Excess of Expenses over Revenue	\$ (267,503)	\$ (284,387)

Mountain Haus Condominium Association

Statement of Changes in Fund Balances

Years Ended October 31, 2019 and 2018

	<u>Operating</u>	<u>Capital</u>	<u>Total</u>
Balance - November 1, 2017	\$ 2,742,802	\$ 108,509	\$ 2,851,311
Excess of expenses over revenue	(284,387)	-	(284,387)
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
Balance - October 31, 2018	<u>2,491,591</u>	<u>128,737</u>	<u>2,620,328</u>
Excess of expenses over revenue	(267,503)	-	(267,503)
Special capital assessments	-	472,278	472,278
Repairs and replacements	-	(458,330)	(458,330)
Purchase of property and equipment transferred to and capitalized in operating fund	38,054	(2,652)	35,402
Balance - October 31, 2019	<u>\$ 2,262,142</u>	<u>\$ 140,033</u>	<u>\$ 2,402,175</u>

Mountain Haus Condominium Association

Statement of Cash Flows

Years Ended October 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Excess of expenses over revenue	\$ (267,503)	\$ (284,387)
Adjustments to reconcile excess of expenses over revenue to net cash and cash equivalents from operating activities:		
Depreciation	281,411	294,454
Special capital assessments	472,278	427,318
Repairs and replacements	(458,330)	(386,490)
Changes in assets and liabilities:		
Accounts receivable	(7,889)	18,911
Inventory	(14,486)	(16,527)
Prepaid expenses	(38,689)	(3,058)
Accounts payable	54,054	29,645
Accrued liabilities	(24,227)	26,255
Patronage dividend payable to owners	(140,891)	(8,125)
Advance reservation deposits	27,991	(350,268)
Net cash and cash equivalents used in operating activities	(116,281)	(252,272)
Cash Flows Used in Investing Activities - Purchase of property and equipment	(316,600)	(57,371)
Cash Flows Provided by Financing Activities - Proceeds from line of credit	331,586	-
Net Decrease in Cash and Cash Equivalents	(101,295)	(309,643)
Cash and Cash Equivalents - Beginning of year	1,282,993	1,592,636
Cash and Cash Equivalents - End of year	\$ 1,181,698	\$ 1,282,993
Supplemental Disclosure of Noncash Activity - Fixed assets transferred from the capital fund	\$ 35,402	\$ 12,756

Mountain Haus Condominium Association

Notes to Financial Statements

October 31, 2019 and 2018

Note 1 - Nature of Business

Mountain Haus Condominium Association (the "Association"), a nonprofit 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 84 percent of the owners participate in the rental program. For the years ended October 31, 2019 and 2018, the Association generally retained 48 percent of short-term room rental revenue received to offset related operating costs, and the remaining 52 percent of short-term room rental revenue was credited to the owners.

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

Note 2 - Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the accompanying financial statements, the Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value due to the short-term nature of these investments. 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 are stated at invoice cost. The Association has the right to place a lien on the property of owners who are delinquent in their accounts. The Association has no allowance for doubtful accounts for financial reporting purposes. All accounts receivable are considered collectible.

Inventories

Inventories consists primarily of guest amenities and linens for units. Linen inventory is valued as follows: one-third at full current cost, one-third at 66 percent of current cost, and one-third at 33 percent 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 nonowners.

Property and equipment are recorded at cost. Both straight-line and accelerated methods are used for computing depreciation and amortization. Assets are depreciated over their estimated useful lives for owned assets, which range from 10 to 39 years for building improvements and 3 to 10 years for furniture, fixtures, and equipment. Costs of maintenance and repairs are charged to expense when incurred.

Depreciation expense for property and equipment totaled \$281,411 and \$294,454 for the years ended October 31, 2019 and 2018, respectively.

Mountain Haus Condominium Association

Notes to Financial Statements

October 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Impairment or Disposal of Long-lived Assets

The Association reviews the recoverability of long-lived assets, including buildings and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pretax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Advance Reservation Deposits

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

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Association, the accounts of the Association are maintained in accordance with the principles of fund accounting. Resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund.

The assets, liabilities, and net assets of the Association are reported in two self-balancing funds as follows:

- Operating Fund, which includes resources available for the common area operations and rental operations of the Association
- 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 Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2019 and 2018 was \$70,158 and \$67,071, 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 nonprofit 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.

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.

Mountain Haus Condominium Association

Notes to Financial Statements

October 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including November 29, 2019, which is the date the financial statements were available to be issued.

Employee Contracts

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

Upcoming Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. A nonpublic entity adopts the new revenue standard for its annual period ending December 31, 2019. The new guidance will be effective for the Association's year ending October 31, 2020. The ASU permits application of the new revenue recognition guidance using one of two retrospective application methods. The Association has not yet determined which application method it will use and is determining the impact of adoption of the standard on the timing of the recognition of revenue.

Note 3 - Retirement Plan

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 matches 50 percent of the participant deferrals, up to 4 percent of the employee's contribution, with a total matching contribution of \$14,085 and \$13,725 for the years ended October 31, 2019 and 2018, respectively.

The Plan also provides for an annual discretionary contribution by the Association. For the years ended October 31, 2019 and 2018, no discretionary contributions were made by the Association.

Note 4 - 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, 2019 and 2018, special capital assessments for capital improvements were \$472,278 and \$427,318, respectively.

Mountain Haus Condominium Association

Notes to Financial Statements

October 31, 2019 and 2018

Note 5 - 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:

	<u>2019</u>	<u>2018</u>
Condotel Association	\$ 74,758 4,819	\$ 231,196 (2,904)
Total	<u>\$ 79,577</u>	<u>\$ 228,292</u>

Note 6 - Line of Credit

Under a line of credit agreement with a bank, the Association has available borrowings of approximately \$500,000 with a maturity date of May 28, 2020. Interest will accrue on the unpaid principal balance of the note based on *The Wall Street Journal* prime rate plus 0.50 percent. The rate as of October 31, 2019 was 5.25 percent. The line of credit is collateralized by all assessments of the Association. The note has an unpaid principal balance of \$331,586, with a remaining available balance of \$168,414 as of October 31, 2019.

Supplemental Information

Independent Auditor's Report on Supplemental Information

To the Board of Managers and Owners
Mountain Haus Condominium Association

We have audited the financial statements of Mountain Haus Condominium Association as of and for the years ended October 31, 2019 and 2018 and have issued our report thereon dated November 29, 2019, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplemental combining statement of operating fund revenue and expenses, schedule of Condotel operating expenses, and schedule of common area expenses are presented for the purpose 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.

Accounting principles generally accepted in the United States of America require that the supplementary information on major repairs and replacements (unaudited) on page 15 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board, which 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 audits 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.



November 29, 2019

Mountain Haus Condominium Association

Combining Statement of Operating Fund Revenue and Expenses

Year Ended October 31, 2019

	Association	Condotel	Eliminating Entries	Total
Revenue and Assessments				
Room revenue	\$ -	\$ 4,482,200	\$ -	\$ 4,482,200
Dues and assessments	1,013,215	-	-	1,013,215
Interest	-	6,211	-	6,211
Maid service	-	46,268	-	46,268
Other	36,905	43,688	(36,405)	44,188
Total revenue and assessments	1,050,120	4,578,367	(36,405)	5,592,082
Departmental and Operating Expenses				
Employee	556,973	1,434,248	-	1,991,221
Marketing and guest	(267)	363,730	(12,000)	351,463
Administrative and general	79,742	257,121	(3,945)	332,918
Utilities	191,524	810	-	192,334
Repairs and maintenance	153,572	-	-	153,572
Housekeeping	-	88,732	(20,460)	68,272
Insurance	59,950	14,166	-	74,116
Depreciation, other than assets specially assessed	-	12,143	-	12,143
Property taxes	3,807	913	-	4,720
Total departmental and operating expenses	1,045,301	2,171,863	(36,405)	3,180,759
Excess of Revenue Over Expenses - Before fixed charges				
	4,819	2,406,504	-	2,411,323
Fixed Charges				
Depreciation on assets specially assessed	269,268	-	-	269,268
Payments to owners for operating results	4,819	74,758	-	79,577
Total fixed charges	274,087	74,758	-	348,845
Excess of Revenue (Under) Over Expenses - Before room revenue credited to rental program participants				
	(269,268)	2,331,746	-	2,062,478
Room Revenue Credited to Rental Program Participants				
	-	(2,329,981)	-	(2,329,981)
Excess of Revenue (Under) Over Expenses	\$ (269,268)	\$ 1,765	\$ -	\$ (267,503)

Mountain Haus Condominium Association

Schedule of Condotel Operating Expenses

Years Ended October 31, 2019 and 2018

	Budget 2019 (Unaudited)	2019	2018
Employee			
Laundry and housekeeping wages	\$ 563,147	\$ 509,466	\$ 511,844
Payroll taxes and benefits	341,318	319,400	307,124
Back office wages	324,779	344,739	332,108
Front office wages	133,364	115,898	110,262
Management bonus	87,919	91,878	115,283
Maintenance wages	54,595	52,867	52,627
Total employee	\$ 1,505,121	\$ 1,434,248	\$ 1,429,248
Marketing and guest			
Guest services	\$ 153,931	\$ 173,019	\$ 186,288
Marketing and advertising	122,016	70,158	67,071
Travel agent commissions	20,000	33,489	15,539
Cable television	36,558	35,120	40,103
Dues and subscriptions	21,070	15,828	18,062
Conference rent	12,000	12,000	12,000
Rating survey	7,500	7,220	7,775
Printing and mailing	10,700	5,804	16,915
Telephone	1,650	64	(3,142)
Promotions and entertainment	9,400	11,028	1,632
Total marketing and guest	\$ 394,825	\$ 363,730	\$ 362,243
Administrative and general			
Credit card commissions	\$ 126,300	\$ 137,414	\$ 130,907
Data processing	32,756	53,666	55,754
Professional fees	23,300	19,026	20,085
Other office expense	16,522	17,539	30,081
Parking	10,735	10,735	10,900
Telephone	9,813	6,551	6,453
Automobile	6,160	4,378	3,830
Uniforms	5,050	2,589	6,419
Office rent	3,945	3,945	4,244
Postage and printing	3,260	1,278	2,039
Total administrative and general	\$ 237,841	\$ 257,121	\$ 270,712
Utilities	\$ 810	\$ 810	\$ 764
Housekeeping			
Cleaning supplies	\$ 52,400	\$ 48,885	\$ 48,717
Laundry rent	20,460	20,460	20,460
Linens	12,000	13,885	(3,600)
Kitchen supplies	6,250	5,502	5,473
Total housekeeping	\$ 91,110	\$ 88,732	\$ 71,050

Mountain Haus Condominium Association

Schedule of Common Area Expenses

Years Ended October 31, 2019 and 2018

	Budget 2019 (Unaudited)	2019	2018
Employee			
Back office wages	\$ 180,065	\$ 200,323	\$ 196,410
Front office wages	110,404	111,291	112,713
Payroll taxes and benefits	93,303	115,985	115,611
Maintenance wages	64,172	64,687	61,374
Laundry and housekeeping wages	64,172	64,687	61,374
Total employee	\$ 512,115	\$ 556,973	\$ 547,482
Administrative and general			
Professional fees	\$ 34,040	\$ 29,960	\$ 22,351
Directors	28,050	18,945	17,495
Data processing and facsimile	10,800	10,800	10,800
Office supplies	7,200	7,202	7,200
Telephone	4,920	4,920	4,920
Parking	7,265	6,415	6,450
Postage and printing	1,500	1,500	1,500
Automobile	-	-	136
Total administrative and general	\$ 93,775	\$ 79,742	\$ 70,852
Utilities			
Gas and electric	\$ 100,068	\$ 100,257	\$ 96,433
Water and sewer	77,465	70,220	74,474
Trash removal	22,423	21,047	21,910
Total utilities	\$ 199,956	\$ 191,524	\$ 192,817
Repairs and maintenance			
Repairs and maintenance	\$ 103,588	\$ 118,242	\$ 123,380
Elevator	20,910	20,910	20,857
Swimming pool	4,800	8,253	4,252
Decorating	4,200	6,167	3,142
Plumbing and electrical	1,200	-	-
Total repairs and maintenance	\$ 134,698	\$ 153,572	\$ 151,631

Mountain Haus Condominium Association

Supplementary Information on Major Repairs and Replacements (Unaudited)

Year Ended October 31, 2019

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, 2019 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	\$ 1,437,500	-
Roof replacement	7 years	500,000	-
Spa, hot tub, and exercise room upgrades	1-20 years	870,557	-
Entrance upgrades	3-16 years	725,000	-
Lobby upgrades	3-11 years	345,000	-
Conference room upgrades	6-13 years	59,000	-
Office furnishings and computers	1-7 years	35,250	-
Unallocated		<u>-</u>	<u>140,033</u>
		<u><u>\$ 3,972,307</u></u>	<u><u>\$ 140,033</u></u>