

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**

FINANCIAL STATEMENTS

AUGUST 31, 2013

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McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard
Lakewood, Colorado 80227
303-988-5648 FAX: 303-988-5919
don@mcnurlincpa.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association
Mt. Crested Butte, Colorado

We have audited the accompanying financial statements of Eagle's Nest Townhouses of Mt. Crested Butte, which comprise the balance sheet as of August 31, 2013, and the related statements of revenues, expenses, and changes in fund balance 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.

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 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 Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association at August 31, 2013, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

McNurlin & Associates, P.C.

McNurlin & Associates, P.C.

Lakewood, Colorado

November 27, 2013

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**

Balance Sheet
August 31, 2013

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 117,203	\$ 52,440	\$ 523,011	\$ 692,654
Assessments receivable	70	-	24,625	24,695
Deposits	-	-	14,323	14,323
Prepaid expenses	3,314	-	-	3,314
Total Current Assets	<u>120,587</u>	<u>52,440</u>	<u>561,959</u>	<u>734,986</u>
Property and Equipment				
Furniture and equipment	26,830	-	-	26,830
Less accumulated depreciation	<u>(25,661)</u>	<u>-</u>	<u>-</u>	<u>(25,661)</u>
Net Property & Equipment	<u>1,169</u>	<u>-</u>	<u>-</u>	<u>1,169</u>
TOTAL ASSETS	<u><u>\$ 121,756</u></u>	<u><u>\$ 52,440</u></u>	<u><u>\$ 561,959</u></u>	<u><u>\$ 736,155</u></u>
LIABILITIES AND FUND BALANCES				
Current Liabilities				
Accounts payable	\$ 8,909	\$ -	\$ 76,302	\$ 85,211
Retainage payable	-	-	18,147	18,147
Prepaid assessments	3,500	-	-	3,500
Total Current Liabilities	<u>12,409</u>	<u>-</u>	<u>94,449</u>	<u>106,858</u>
Fund Balances	<u>109,347</u>	<u>52,440</u>	<u>467,510</u>	<u>629,297</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 121,756</u></u>	<u><u>\$ 52,440</u></u>	<u><u>\$ 561,959</u></u>	<u><u>\$ 736,155</u></u>

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

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended August 31, 2013

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
REVENUES				
Assessment income	\$ 230,517	\$ 9,483	\$ -	\$ 240,000
Special assessments	-	-	1,020,000	1,020,000
Rental income	14,400	-	-	14,400
Interest income	-	28	3,728	3,756
Other income	1,039	-	-	1,039
Late fees	3,337	-	-	3,337
TOTAL REVENUES	249,293	9,511	1,023,728	1,282,532
EXPENSES				
Audit & tax return	3,000	-	-	3,000
Bad debt	4,996	-	-	4,996
Board of directors	1,312	-	-	1,312
Cable television	13,654	-	-	13,654
Chimney cleaning	1,852	-	-	1,852
Common area cleaning	10,827	-	-	10,827
Contract labor	4,466	-	-	4,466
Depreciation	385	-	-	385
Electricity	24,922	-	-	24,922
Fire protection	1,023	-	-	1,023
Hot tub maintenance & supplies	13,976	-	-	13,976
Insurance	17,897	-	-	17,897
Internet	2,875	-	-	2,875
Landscaping	4,339	-	-	4,339
Legal	7,684	-	-	7,684
Maintenance labor & supplies	18,309	-	-	18,309
Management fees	25,200	-	-	25,200
Miscellaneous expense	398	-	-	398
Postage & office supplies	233	-	-	233
Property taxes	491	-	-	491
Roof repairs	171	-	-	171
Snow removal	35,573	-	-	35,573
Trash	4,062	-	-	4,062
Water & sanitation	35,710	-	-	35,710
Water damage	7,899	-	-	7,899
Capital repairs	-	14,362	852,696	867,058
TOTAL EXPENSES	241,254	14,362	852,696	1,108,312
EXCESS OF REVENUES OVER				
(UNDER) EXPENSES	8,039	(4,851)	171,032	174,220
BEGINNING FUND BALANCES	21,398	63,675	370,004	455,077
FUND TRANSFERS	79,910	(6,384)	(73,526)	-
ENDING FUND BALANCES	\$ 109,347	\$ 52,440	\$ 467,510	\$ 629,297

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

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Statement of Cash Flows
For the Year Ended August 31, 2013

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Excess of revenues over (under) expenses	\$ 8,039	\$ (4,851)	\$ 171,032	\$ 174,220
Adjustment to reconcile excess of revenues over (under) expenses to cash from operating activities:				
Depreciation	385	-	-	385
Change in assessments receivable	14,771	-	31,220	45,991
Change in deposits	-	-	(8,322)	(8,322)
Change in prepaid expenses	(172)	-	-	(172)
Change in accounts payable	(15,020)	-	76,302	61,282
Change in security deposits	(1,200)	-	-	(1,200)
Change in retainage payable	-	-	18,147	18,147
Change in due to/from other funds	(79,910)	6,384	73,526	-
Change in prepaid assessments	2,500	-	-	2,500
NET CASH PROVIDED BY (USED IN)				
OPERATING ACTIVITIES	(70,607)	1,533	361,905	292,831
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of equipment	(1,041)	-	-	(1,041)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Fund transfers	79,910	(6,384)	(73,526)	-
NET INCREASE (DECREASE) IN CASH	8,262	(4,851)	288,379	291,790
CASH AT BEGINNING OF THE YEAR	108,941	57,291	234,632	400,864
CASH AT END OF THE YEAR	\$ 117,203	\$ 52,440	\$ 523,011	\$ 692,654
Supplemental Information:				
Cash paid for interest				\$ -
Cash paid for income taxes				\$ -

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

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**
Notes to the Financial Statements
August 31, 2013

Note 1 NATURE OF ORGANIZATION

The Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association (the "Association") is a statutory condominium association organized as a non-profit corporation incorporated in the State of Colorado in March 1981. The Association is responsible for the operation and maintenance of the common property of the Eagle's Nest Townhouses, a 40-unit residential townhome complex in Mt. Crested Butte, Colorado. In addition, two small studio units are owned in common by the members and are rented to people working in the Mt. Crested Butte area.

Note 2 DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 27, 2013, the date that the financial statements were available to be issued.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

In accordance with generally accepted accounting principles (GAAP), 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 Capital Replacement Fund or Special Projects 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.

Capital Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs, replacements and acquisitions.

Special Projects Fund – This fund is used to accumulate financial resources designated for future special projects.

Estimates

The preparation of financial statements to 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 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.

See accompanying independent auditors' report.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**
Notes to the Financial Statements
August 31, 2013

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. All demand deposit are held a financial institutions at which interest-bearing deposits are insured up to \$250,000 per institution by the Federal Deposit Insurance Corporation (FDIC). As of August 31, 2013 the balance at two institutions exceeded the FDIC limit by approximately \$181,456.

Member Assessments

Association members are subject to monthly assessments 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 at the balance sheet date represent fees due from unit owners. The Association has the right to enforce the collection of assessments by placing a lien on the underlying title to the property. Management has deemed that all assessments are collectible.

There was no bad debt expense for the year ended August 31, 2013.

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.

The common property includes interior common areas, building exteriors, hot tub, landscaping, parking, etc. The Association capitalizes personal property at cost. The personal property is depreciated over an estimated useful life ranging from five to ten years using tax depreciation methods which are approximately the same as straight line methods.

Depreciation expense for the year ended August 31, 2013 was \$385.

Note 4 MANAGEMENT CONTRACTS

The Association contracted with Crested Butte Lodging & Property Management, Inc. to manage its daily operations on a yearly contract. During the year ended August 31, 2013, the Association paid Crested Butte Lodging & Property Management, Inc. \$25,200 in management fees and \$75,890 for maintenance, snow removal and other operations. See Note 6.

The Association owed \$4,616 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2013.

See accompanying independent auditors' report.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**
Notes to the Financial Statements
August 31, 2013

Note 5 FUTURE MAJOR REPAIRS

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. During the year ended August 31, 2013 the Association collected \$9,483 in Capital Replacement Fund dues and \$1,020,000 in special assessment dues for the Special Projects Fund. The Association expended \$852,696 from the Special Projects Fund, primarily for roof repairs, asphalt repaving, and overall renovation efforts. The Association also expended \$14,362 from the Capital Replacement fund. Accumulated funds, which aggregate \$523,011 in the Special Projects Fund and \$52,440 in the Capital Replacement Fund at August 31, 2013, are held in separate accounts and generally are not available for expenditures for normal operations.

The Association has conducted a study to estimate the remaining useful lives and replacement costs of the components of common property and current estimates of costs of future major repairs and replacements. Funds are being accumulated in the Capital 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 Capital Replacement Fund may not be adequate to meet future needs. If additional funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments or postpone replacements until funds are available. The effect on future assessments has not been determined at this time.

Note 6 RENTAL PROPERTY

The Association owns two units which it leased to Crested Butte Lodging & Property Management, Inc. at discounted rates ranging from \$600 to \$750 per month during the fiscal year ended August 31, 2013. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2013 was \$14,400.

Note 7 INCOME TAXES

The Association qualifies as a Common Interest Realty Association under Section 277 of the Internal Revenue Code. According to Internal Revenue Service (IRS) regulations, membership activities are generally exempt from income taxes and any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income and expenses unrelated to membership activities are subject to federal and state corporate taxes. As of August 31, 2013, the Association's tax years for 2009, 2010 and 2011 are open to examination by taxing authorities.

See accompanying independent auditors' report.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**

Notes to the Financial Statements
August 31, 2013

Note 7 INCOME TAXES (Continued)

As of August 31, 2013, the Association has a federal net operating loss carry forward as follows:

August 31, 2025	\$ 11,609
August 31, 2026	5,467
August 31, 2029	8,886
August 31, 2032	105
	<u>\$ 26,067</u>

This carry forward creates a deferred tax asset of approximately \$3,900. However, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 8 SPECIAL ASSESSMENT

During the year ended August 31, 2013, the Board of Directors passed a special assessment of \$25,500 per unit totaling \$1,020,000 to be paid in full by April 1, 2013 to help fund Phase III of the townhouse renovation effort. The current year special assessment is part of a series of annual special assessments totaling \$3,160,000 dating back to the year ended August 31, 2009. The total special assessments receivable at August 31, 2013 was \$24,625.

Note 9 COMMITMENTS

As of August 31, 2013 the Association has committed \$221,967 in construction contracts to complete Phase IV of renovations throughout the Association.

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard
Lakewood, Colorado 80227
303-988-5648 FAX: 303-988-5919
don@mcnurlincpa.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Eagle's Nest Townhouses of Mt. Crested Butte
Condominium Association
Mt. Crested Butte, Colorado

We have audited the financial statements of Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association as of and for the year ended August 31, 2013, and our report thereon dated November 27, 2013, which expressed an unqualified opinion on those financial statements, appears on page I. 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 11 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 & Associates, P.C.

McNurlin & Associates, P.C.
Lakewood, Colorado
November 27, 2013

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Statement of Revenues and Expenses - Budget Versus Actual (Non-GAAP)
For the Year Ended August 31, 2013

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessment income	\$ 240,000	\$ 240,000	\$ -
Special assessments	-	1,020,000	1,020,000
Rental income	14,400	14,400	-
Interest income	24	3,756	3,732
Other income	650	1,039	389
Late fees	4,200	3,337	(863)
TOTAL REVENUES	259,274	1,282,532	1,023,258
EXPENSES			
Audit & tax return	3,200	3,000	200
Bad debt	6,000	4,996	1,004
Board of directors	700	1,312	(612)
Cable television	13,550	13,654	(104)
Chimney cleaning	3,500	1,852	1,648
Common area cleaning	10,000	10,827	(827)
Contract labor	7,800	4,466	3,334
Depreciation	564	385	179
Electricity	25,435	24,922	513
Fire protection	1,200	1,023	177
Hot tub maintenance & supplies	14,300	13,976	324
Insurance	17,880	17,897	(17)
Internet	2,520	2,875	(355)
Landscaping	2,500	4,339	(1,839)
Legal	5,800	7,684	(1,884)
Maintenance labor & supplies	15,000	18,309	(3,309)
Management fees	25,200	25,200	-
Miscellaneous expense	-	398	(398)
Postage & office supplies	180	233	(53)
Property taxes	700	491	209
Roof repairs	-	171	(171)
Snow removal	50,000	35,573	14,427
Trash	4,800	4,062	738
Water & sanitation	35,941	35,710	231
Water damage	1,000	7,899	(6,899)
Capital repairs	-	867,058	(867,058)
TOTAL EXPENSES	247,770	1,108,312	(860,542)
EXCESS OF REVENUES OVER EXPENSES	\$ 11,504	\$ 174,220	\$ 162,716

See accompanying independent auditors' report on supplemental information.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION**

Supplemental Information on Future Major Repairs and Replacements (Compiled)

August 31, 2013

A study was performed in 2010 to assess the condition of the Association's property and to estimate the remaining useful lives of the components of common property through 2016. The Board estimated replacement costs based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have been periodically revised since that date but do not take into account the effect 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. (Amounts are rounded to the nearest hundred dollars.)

	2014	2015
Rework sewer lines	\$ -	\$ -
Replace concrete curb/gutter	-	-
Replace concrete garage aprons	-	-
Mud jack garage slabs	-	4,400
Repave upper and lower parking	-	-
Replace wall heaters	4,100	-
Replace garage doors	-	-
Replace balcony decks	-	-
Utility and meter covers	-	-
Replace two sauna heaters	-	-
Replace lower hot tub	-	-
Replace stucco with siding	-	-
Update Wi-Fi equipment	-	-
Replace 3 hot water heaters	-	-
Upgrade lower sauna/restroom	-	-
Maintenance of two apartments	-	-
Replace guard rails	34,300	-
Replace interior unit front doors	16,300	-
Replace small retaining walls	-	46,500
	<u>\$ 54,700</u>	<u>\$ 50,900</u>

See accompanying independent auditors' report on supplemental information.