

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

FINANCIAL STATEMENTS

AUGUST 31, 2016

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# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

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## 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 Condominium Association, which comprise the balance sheet as of August 31, 2016, 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, 2016, 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  
December 14, 2016

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

Balance Sheet  
August 31, 2016

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 159,723	\$ 138,458	\$ -	\$ 298,181
Assessments receivable	3,072	-	-	3,072
Prepaid expenses	1,720	-	-	1,720
Due from Operating Fund	-	9,687	-	9,687
<b>Total Current Assets</b>	<b>164,515</b>	<b>148,145</b>	<b>-</b>	<b>312,660</b>
<b>Property and Equipment</b>				
Furniture and equipment	27,645	-	-	27,645
Less accumulated depreciation	(26,897)	-	-	(26,897)
<b>Property and Equipment, net</b>	<b>748</b>	<b>-</b>	<b>-</b>	<b>748</b>
<b>TOTAL ASSETS</b>	<b>\$ 165,263</b>	<b>\$ 148,145</b>	<b>\$ -</b>	<b>\$ 313,408</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 12,358	\$ -	\$ -	\$ 12,358
Prepaid assessments	5,400	-	-	5,400
Due to Replacement Fund	9,687	-	-	9,687
<b>Total Current Liabilities</b>	<b>27,445</b>	<b>-</b>	<b>-</b>	<b>27,445</b>
<b>Fund Balances</b>	<b>137,818</b>	<b>148,145</b>	<b>-</b>	<b>285,963</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 165,263</b>	<b>\$ 148,145</b>	<b>\$ -</b>	<b>\$ 313,408</b>

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, 2016

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>REVENUES</b>				
Assessment income	\$ 248,400	\$ 39,600	\$ -	\$ 288,000
Rental income	14,400	-	-	14,400
Interest income	-	44	20	64
Other income	1,122	-	-	1,122
Late fees	258	-	-	258
<b>TOTAL REVENUES</b>	<b>264,180</b>	<b>39,644</b>	<b>20</b>	<b>303,844</b>
<b>EXPENSES</b>				
Audit and tax return	3,600	-	-	3,600
Board of directors	351	-	-	351
Cable television	15,608	-	-	15,608
Chimney cleaning	3,210	-	-	3,210
Common area cleaning	16,290	-	-	16,290
Contract labor	7,662	-	-	7,662
Depreciation	324	-	-	324
Electricity	22,089	-	-	22,089
Fire protection	1,512	-	-	1,512
Hot tub maintenance and supplies	12,773	-	-	12,773
Insurance	20,484	-	-	20,484
Internet	132	-	-	132
Landscaping	2,916	-	-	2,916
Legal	172	-	-	172
Maintenance labor and supplies	14,924	-	-	14,924
Management fees	27,840	-	-	27,840
Miscellaneous expense	658	-	-	658
Postage and office supplies	161	-	-	161
Property taxes	605	-	-	605
Roof repairs	540	-	-	540
Snow removal	60,407	-	-	60,407
Trash	4,186	-	-	4,186
Water and sanitation	38,049	-	-	38,049
Capital repairs	-	62,676	29,348	92,024
<b>TOTAL EXPENSES</b>	<b>254,493</b>	<b>62,676</b>	<b>29,348</b>	<b>346,517</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<b>9,687</b>	<b>(23,032)</b>	<b>(29,328)</b>	<b>(42,673)</b>
<b>BEGINNING FUND BALANCES</b>	<b>137,818</b>	<b>99,838</b>	<b>90,980</b>	<b>328,636</b>
<b>FUND TRANSFERS</b>	<b>(9,687)</b>	<b>71,339</b>	<b>(61,652)</b>	<b>-</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 137,818</b>	<b>\$ 148,145</b>	<b>\$ -</b>	<b>\$ 285,963</b>

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, 2016

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Excess of revenues over (under) expenses	\$ 9,687	\$ (23,032)	\$ (29,328)	\$ (42,673)
Adjustment to reconcile excess of revenues over (under) expenses to cash provided by (used in) operating activities:				
Depreciation	324	-	-	324
Change in:				
Assessments receivable	(670)	-	-	(670)
Deposits	-	-	1,553	1,553
Prepaid expenses	4,602	-	-	4,602
Interfund liabilities	9,687	(9,687)	-	-
Accounts payable	3,038	-	-	3,038
Prepaid assessments	(1,740)	-	-	(1,740)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	24,928	(32,719)	(27,775)	(35,566)
 CASH FLOWS FROM INVESTING ACTIVITIES	 -	 -	 -	 -
 CASH FLOWS FROM FINANCING ACTIVITIES:				
Fund transfers	(9,687)	71,339	(61,652)	-
NET INCREASE (DECREASE) IN CASH	15,241	38,620	(89,427)	(35,566)
 CASH AT BEGINNING OF THE YEAR	 144,482	 99,838	 89,427	 333,747
 CASH AT END OF THE YEAR	 \$ 159,723	 \$ 138,458	 \$ -	 \$ 298,181
 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, 2016

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 located in Mt. Crested Butte, Colorado. In addition, two small studio units are owned in common by the members and are rented to Crested Butte Lodging & Property Management, Inc.

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 December 14, 2016, the date that the financial statements were available to be issued.

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred

Fund Accounting

In accordance with generally accepted accounting principles, the Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the Operating Fund are generally at the discretion of the board of directors and property manager. Disbursements from the 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.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2016

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.

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 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.

Recognition of Assets and Depreciation Policy

Real property and common areas acquired from the developer and related improvements to such property are owned by the individual unit owners in common and not by the Association. Accordingly, these assets are not recorded on the Association's financial statements. Common property includes interior common areas, building exteriors, hot tub, landscaping, rental units, 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 approximate the straight-line method. Depreciation expense for the year ended August 31, 2016 was \$324.

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. Given this leverage afforded the Association, and the past collection history of the Association, an allowance for uncollectible assessments is not considered necessary.

See accompanying independent auditors' report.



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

Notes to the Financial Statements  
August 31, 2016

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collection Policy

Members are subject to monthly assessments, which become delinquent if they are not paid by the last day of the month. Delinquent assessments bear interest at the rate of eighteen percent (18%) per annum. When an assessment becomes thirty (30) days delinquent, a courtesy reminder is mailed to the member. At sixty (60) days, the member will receive a letter from the Association advising of the consequences on non-payment, which includes foreclosure, additional interest, and the accrual of legal fees. At ninety (90) days, the member will receive a letter from the Association demanding payment within fourteen (14) days. If payment is not received in the stated time, the Association reserves the right to act on any legal action available. All reasonable attorney and collection fees are the responsibility of the member.

Prepaid Assessments

Assessments received in advance of the period earned are presented as prepaid assessments on the Balance Sheet. Prepaid assessments as of August 31, 2016 total \$5,400 and represent September through December 2016 assessments.

Note 4 MANAGEMENT CONTRACTS/RELATED PARTY

The Association contracted with Crested Butte Lodging & Property Management, Inc. to manage its daily operations for the year ended August 31, 2016. The management fee paid to Crested Butte Lodging & Property Management, Inc. was \$27,840. Portions of the expenses incurred by the Association are paid directly to Crested Butte Lodging & Property Management, Inc. for current operations, and maintenance fees, and capital improvements. The amount paid for the period ended August 31, 2016 for current operations, and maintenance fees, and capital improvements was \$79,937 and \$25,045, respectively. The Association owed \$7,738 to Crested Butte Lodging & Property Management, Inc., which is included in Accounts Payable on the Balance Sheet as of August 31, 2016.

The Association owns two (2) units which it leases to Crested Butte Lodging & Property Management, Inc. at a rate of \$600 per month during the fiscal year ended August 31, 2016. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2016 was \$14,400.

During the year ended August 31, 2016, the Association paid the Snow Team CB Inc. \$29,755 for snow removal and shoveling services. There is common ownership between Crested Butte Lodging & Property Management, Inc. and Snow Team CB Inc. There was no balance owed to Snow Team CB Inc. at August 31, 2016.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2016

**Note 5 FUTURE MAJOR REPAIRS**

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements; however, the Board of Directors of the Association has chosen to accumulate funds. During the year ended August 31, 2016 the Association collected \$39,600 in Capital Replacement Fund dues. The Association expended \$62,676 from the Capital Replacement Fund, primarily for repairs to concrete, windows, drainage system, fireplaces, and motion sensors. The Association expended \$29,348 from the Special Projects Fund, primarily for renovations, radon mitigation, asphalt maintenance, and roof repairs. Accumulated funds, which aggregate \$138,458 in the Capital Replacement Fund at August 31, 2016, are held in separate accounts and generally are not available for normal operations.

Funds are being accumulated in the Capital Replacement Fund based on estimates of future needs for repairs and replacements of common property components. 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 all future needs for major repairs and replacements. If additional funds are needed, 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 INCOME TAXES**

Homeowner associations may be taxed as regular corporations, subject to the provisions of the Internal Revenue Code Section 277, or as homeowner associations subject to Internal Revenue Code Section 528. The Association elected to be taxed as a regular corporation for the year ended August 31, 2016. According to the Internal Revenue Code Section 277 and the Internal Revenue Service regulation, any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income unrelated to member activities is considered to be taxable income and will be taxed according to Internal Revenue Service regulations.

The standards on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include deciding on an allocation of income and expenses between member and nonmember activities and deciding whether to file Form 1120 or Form 1120-H. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The Association has assessed its tax positions for all open tax years and has concluded that there are currently no significant unrecognized tax benefits or liabilities to be recognized. As of August 31, 2016, the Association's tax years ended August 31, 2013, 2014, and 2015 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, 2016

Note 6 INCOME TAXES (Continued)

As of August 31, 2016, the Association has federal net operating losses that expire as follows:

<u>Expiration Date</u>	<u>Amount</u>
August 31, 2025	\$ 7,530
August 31, 2026	5,467
August 31, 2029	8,886
August 31, 2032	105
	<u>\$ 21,988</u>

This carry forward creates a deferred tax asset of approximately \$3,300. However, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 7 CONCENTRATION OF RISK

During the year ended August 31, 2016, the Association maintained funds at a local banking institution that were in excess of the \$250,000 FDIC insurance limit per depositor at one insured bank. At August 31, 2016, the Association's exposure to this risk was approximately \$48,000.

See accompanying independent auditors' report.

**SUPPLEMENTAL INFORMATION**

# McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

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## **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, 2016, and our report thereon dated December 14, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The statement of revenues and expenses-budget versus actual, which is the responsibility of the Association's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Accounting principles generally accepted in the United States of America require that supplemental information on future major repairs and replacements on page 12 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  
December 14, 2016

**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, 2016

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment income	\$ 288,000	\$ 288,000	\$ -
Rental income	14,400	14,400	-
Interest income	24	64	40
Other income	1,000	1,122	122
Late fees	-	258	258
<b>TOTAL REVENUES</b>	<b>303,424</b>	<b>303,844</b>	<b>420</b>
<b>EXPENSES</b>			
Audit and tax return	3,400	3,600	(200)
Board of directors	500	351	149
Cable television	15,551	15,608	(57)
Chimney cleaning	3,000	3,210	(210)
Common area cleaning	10,800	16,290	(5,490)
Contract labor	8,800	7,662	1,138
Depreciation	-	324	(324)
Electricity	23,900	22,089	1,811
Fire protection	2,000	1,512	488
Hot tub maintenance and supplies	12,000	12,773	(773)
Insurance	20,496	20,484	12
Internet	250	132	118
Landscaping	2,500	2,916	(416)
Legal	2,700	172	2,528
Maintenance labor and supplies	18,350	14,924	3,426
Management fees	27,840	27,840	-
Miscellaneous expense	1,150	658	492
Postage and office supplies	360	161	199
Property taxes	480	605	(125)
Roof repairs	-	540	(540)
Snow removal	54,000	60,407	(6,407)
Trash	4,800	4,186	614
Water and sanitation	38,150	38,049	101
Water damage	6,000	-	6,000
Capital repairs	-	92,024	(92,024)
<b>TOTAL EXPENSES</b>	<b>257,027</b>	<b>346,517</b>	<b>(89,490)</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<b>\$ 46,397</b>	<b>\$ (42,673)</b>	<b>\$ (89,070)</b>

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, 2016

An informal study was performed in 2014, and updated in 2016, to assess the condition of the Association's common property and to estimate the remaining useful lives of the components of common property. 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.)

	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost
Mud jack garage slabs	2	\$ 8,000
Exterior building maintenance	4 - 9	365,900
Parking lot maintenance	1 - 12	103,800
Replace timber retaining walls	2 - 9	9,400
Stain retaining walls	2	25,000
Replace interior unit front door	3	18,300
Replace guard rails	5	42,900
Replace sauna heaters	1	9,600
Repair garage apron drains	2 - 4	3,600
Repairs to common halls	8 - 12	34,500
Common hall carpet	3	13,000
		\$ 634,000

See accompanying independent auditors' report on supplemental information.