

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

FINANCIAL STATEMENTS

AUGUST 31, 2014

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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, which comprise the balance sheet as of August 31, 2014, 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, 2014, 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 24, 2014

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

Balance Sheet  
August 31, 2014

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 115,986	\$ 60,204	\$ 428,186	\$ 604,376
Due to/from other funds	(237)	(28)	265	-
Assessments receivable	1,938	-	-	1,938
Deposits	-	-	3,165	3,165
Prepaid expenses	1,719	-	-	1,719
Total Current Assets	<u>119,406</u>	<u>60,176</u>	<u>431,616</u>	<u>611,198</u>
Property and Equipment				
Furniture and equipment	26,830	-	-	26,830
Less accumulated depreciation	<u>(26,162)</u>	<u>-</u>	<u>-</u>	<u>(26,162)</u>
Net Property & Equipment	<u>668</u>	<u>-</u>	<u>-</u>	<u>668</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 120,074</u></u>	<u><u>\$ 60,176</u></u>	<u><u>\$ 431,616</u></u>	<u><u>\$ 611,866</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
Current Liabilities				
Accounts payable	\$ 8,285	\$ -	\$ -	\$ 8,285
Prepaid assessments	<u>9,516</u>	<u>-</u>	<u>-</u>	<u>9,516</u>
Total Current Liabilities	17,801	-	-	17,801
Fund Balances	<u>102,273</u>	<u>60,176</u>	<u>431,616</u>	<u>594,065</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 120,074</u></u>	<u><u>\$ 60,176</u></u>	<u><u>\$ 431,616</u></u>	<u><u>\$ 611,866</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, 2014

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>REVENUES</b>				
Assessment income	\$ 250,400	\$ 9,600	\$ -	\$ 260,000
Special assessments	-	-	220,000	220,000
Rental income	14,400	-	-	14,400
Interest income	-	-	1,162	1,162
Other income	1,011	-	-	1,011
Late fees	524	-	-	524
<b>TOTAL REVENUES</b>	<b>266,335</b>	<b>9,600</b>	<b>221,162</b>	<b>497,097</b>
<b>EXPENSES</b>				
Audit & tax return	3,080	-	-	3,080
Board of directors	262	-	-	262
Cable television	14,942	-	-	14,942
Chimney cleaning	2,611	-	-	2,611
Common area cleaning	9,969	-	-	9,969
Contract labor	8,686	-	-	8,686
Depreciation	501	-	-	501
Electricity	23,562	-	-	23,562
Fire protection	1,978	-	-	1,978
Hot tub maintenance & supplies	9,459	-	-	9,459
Insurance	19,929	-	-	19,929
Internet	893	-	-	893
Landscaping	1,129	-	-	1,129
Legal	1,914	-	-	1,914
Maintenance labor & supplies	23,476	-	-	23,476
Management fees	25,200	-	-	25,200
Miscellaneous expense	749	-	-	749
Postage & office supplies	397	-	-	397
Property taxes	417	-	-	417
Snow removal	80,927	-	-	80,927
Trash	4,208	-	-	4,208
Water & sanitation	36,062	-	-	36,062
Water damage	3,058	-	-	3,058
Capital repairs	-	1,864	257,056	258,920
<b>TOTAL EXPENSES</b>	<b>273,409</b>	<b>1,864</b>	<b>257,056</b>	<b>532,329</b>
<b>EXCESS OF REVENUES OVER</b>				
<b>(UNDER) EXPENSES</b>	<b>(7,074)</b>	<b>7,736</b>	<b>(35,894)</b>	<b>(35,232)</b>
<b>BEGINNING FUND BALANCES</b>	<b>109,347</b>	<b>52,440</b>	<b>467,510</b>	<b>629,297</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 102,273</b>	<b>\$ 60,176</b>	<b>\$ 431,616</b>	<b>\$ 594,065</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, 2014

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Excess of revenues over (under) expenses	\$ (7,074)	\$ 7,736	\$ (35,894)	\$ (35,232)
Adjustment to reconcile excess of revenues over (under) expenses to cash from operating activities:				
Depreciation	501	-	-	501
Change in due to/from other funds	237	28	(265)	-
Change in assessments receivable	(1,868)	-	24,625	22,757
Change in deposits	-	-	11,158	11,158
Change in prepaid expenses	1,595	-	-	1,595
Change in accounts payable	(624)	-	-	(624)
Change in retainage payable	-	-	(18,147)	(18,147)
Change in due to/from other funds	-	-	(76,302)	(76,302)
Change in prepaid assessments	6,016	-	-	6,016
<b>NET CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>	(1,217)	7,764	(94,825)	(88,278)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of equipment	-	-	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Fund transfers	-	-	-	-
<b>NET INCREASE (DECREASE) IN CASH</b>	(1,217)	7,764	(94,825)	(88,278)
<b>CASH AT BEGINNING OF THE YEAR</b>	117,203	52,440	523,011	692,654
<b>CASH AT END OF THE YEAR</b>	<u>\$ 115,986</u>	<u>\$ 60,204</u>	<u>\$ 428,186</u>	<u>\$ 604,376</u>
<b>Supplemental Information:</b>				
Cash paid for interest				<u>\$ -</u>
Cash paid for income taxes				<u>\$ -</u>

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, 2014

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 24, 2014, 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 (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.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2014

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2014 the balance at one institution exceeded the FDIC limit by approximately \$151,883.

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, 2014.

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, 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 are approximately the same as straight line methods.

Depreciation expense for the year ended August 31, 2014 was \$501.

See accompanying independent auditors' report.



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

Notes to the Financial Statements  
August 31, 2014

**Note 4 MANAGEMENT CONTRACTS/RELATED PARTY**

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, 2014, the Association paid Crested Butte Lodging & Property Management, Inc. \$28,080 in management fees and \$107,732 for maintenance, snow removal and other operations.

The Association owed \$4,038 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2014.

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, 2014. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2014 was \$14,400.

**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, 2014 the Association collected \$9,600 in Capital Replacement Fund dues and \$220,000 in special assessment dues for the Special Projects Fund. The Association expended \$257,056 from the Special Projects Fund, primarily for roof repairs, asphalt repaving, and overall renovation efforts. The Association also expended \$1,864 from the Capital Replacement Fund. Accumulated funds, which aggregate \$428,186 in the Special Projects Fund and \$60,204 in the Capital Replacement Fund at August 31, 2014, 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.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2014

Note 6 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, 2014, the Association's tax years for August 31, 2011, 2012 and 2013 are open to examination by taxing authorities.

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, 2014, the Association has a federal net operating loss carry forward as follows:

August 31, 2025	\$ 11,190
August 31, 2026	5,467
August 31, 2029	8,886
August 31, 2032	105
	<u>\$ 25,648</u>

This carry forward creates a deferred tax asset of approximately \$3,850. However, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 7 SPECIAL ASSESSMENT

During the year ended August 31, 2014, the Board of Directors passed a special assessment of \$5,500 per unit totaling \$220,000 to be paid in full by April 1, 2014 to help fund Phase IV of the townhouse renovation effort. The current year special assessment is part of a series of annual special assessments totaling \$3,380,000 dating back to the year ended August 31, 2009.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2014

Note 8 COMMITMENTS

As of August 31, 2014 the Association has committed \$111,618 in construction contracts to complete Phase V of renovations throughout the Association.

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, 2014, and our report thereon dated November 24, 2014, which expressed an unqualified 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.

*mcn & Associates, P.C.*  
McNurlin & Associates, P.C.  
Lakewood, Colorado  
November 24, 2014

**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, 2014

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment income	\$ 260,000	\$ 260,000	\$ -
Special assessments	-	220,000	220,000
Rental income	14,400	14,400	-
Interest income	24	1,162	1,138
Other income	650	1,011	361
Late fees	4,200	524	(3,676)
<b>TOTAL REVENUES</b>	<u>279,274</u>	<u>497,097</u>	<u>217,823</u>
<b>EXPENSES</b>			
Audit & tax return	3,000	3,080	(80)
Bad debt	4,000	-	4,000
Board of directors	700	262	438
Cable television	13,548	14,942	(1,394)
Chimney cleaning	2,200	2,611	(411)
Common area cleaning	10,800	9,969	831
Contract labor	7,800	8,686	(886)
Depreciation	205	501	(296)
Electricity	25,000	23,562	1,438
Fire protection	1,100	1,978	(878)
Hot tub maintenance & supplies	14,850	9,459	5,391
Insurance	18,084	19,929	(1,845)
Internet	2,520	893	1,627
Landscaping	2,900	1,129	1,771
Legal	3,000	1,914	1,086
Maintenance labor & supplies	17,250	23,476	(6,226)
Management fees	25,200	25,200	-
Miscellaneous expense	400	749	(349)
Postage & office supplies	300	397	(97)
Property taxes	700	417	283
Snow removal	47,750	80,927	(33,177)
Trash	5,100	4,208	892
Water & sanitation	37,020	36,062	958
Water damage	6,000	3,058	2,942
Capital repairs	-	258,920	(258,920)
<b>TOTAL EXPENSES</b>	<u>249,427</u>	<u>532,329</u>	<u>(282,902)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<u>\$ 29,847</u>	<u>\$ (35,232)</u>	<u>\$ (65,079)</u>

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, 2014

A study was performed in 2010, and updated it in 2014, to assess the condition of the Association's property and to estimate the remaining useful lives of the components of common property through 2024. 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.)

	2015	2016	2017	2018	2019
Soffit vents	\$ 3,800	\$ -	\$ -	\$ -	\$ -
Manager's apartment exteriors	50,000	-	-	-	-
Replace lower hot tub	12,000	-	-	-	-
Upgrade lower sauna/restroom	20,900	-	-	-	-
Replace common hot water heaters	3,000	-	-	-	-
Mud jack garage slabs	-	8,000	-	-	-
Add web heat controls	-	9,700	-	-	-
Common hall carpet	-	13,000	-	-	-
Painting/staining	-	170,000	-	-	-
Parking lot maintenance	-	15,000	-	-	-
Hall painting and repairs	-	-	34,500	-	-
Hall lighting repairs	-	-	11,700	-	-
Replace small retaining walls	-	-	-	4,400	-
Mud jack garage slabs	-	-	-	8,000	-
Stain retaining walls	-	-	-	25,000	-
Parking lot maintenance	-	-	-	-	15,000
Replace interior unit front doors	-	-	-	-	18,300
	<u>\$ 89,700</u>	<u>\$ 215,700</u>	<u>\$ 46,200</u>	<u>\$ 37,400</u>	<u>\$ 33,300</u>

The above information reflects the Association's estimated expenditures based on the study updated in 2014 and does not reflect any expenditures that may occur after the year ending August 31, 2019.

See accompanying independent auditors' report on supplemental information.