

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

FINANCIAL STATEMENTS

AUGUST 31, 2011

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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 balance sheet of Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association as of August 31, 2011 and the related statements of revenues, expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 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 11, 2011

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

Balance Sheet  
August 31, 2011

	Operating Fund	Replacement Fund	(Memo only) Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 137,215	\$ 161,865	\$ 299,080
Assessments receivable	7,359	25,454	32,813
Due from operating fund	-	134,051	134,051
Deposits	-	6,856	6,856
Prepaid expenses	1,251	-	1,251
Total Current Assets	145,825	328,226	474,051
Property and Equipment			
Furniture and equipment	25,790	-	25,790
Less accumulated depreciation	(25,071)	-	(25,071)
Net Property & Equipment	719	-	719
<b>TOTAL ASSETS</b>	<b>\$ 146,544</b>	<b>\$ 328,226</b>	<b>\$ 474,770</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 9,928	\$ 4,497	\$ 14,425
Due to replacement fund	134,051	-	134,051
Security deposits	1,200	-	1,200
Total Current Liabilities	145,179	4,497	149,676
Fund Balances	1,365	323,729	325,094
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 146,544</b>	<b>\$ 328,226</b>	<b>\$ 474,770</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, 2011

	Operating Fund	Replacement Fund	(Memo only) Total
<b>REVENUES</b>			
Assessment income	\$ 228,000	\$ 12,000	\$ 240,000
Special assessments	-	520,000	520,000
Rental income	12,900	-	12,900
Interest income	22	1,000	1,022
Other income	650	-	650
Late fees	3,888	-	3,888
<b>TOTAL REVENUES</b>	<b>245,460</b>	<b>533,000</b>	<b>778,460</b>
<b>EXPENSES</b>			
Audit & tax return	2,025	-	2,025
Bank charges	31	-	31
Board of directors	1,803	-	1,803
Bobcat maintenance	879	-	879
Cable television	13,258	-	13,258
Common area cleaning	9,893	-	9,893
Contract labor	7,910	-	7,910
Decorations	382	-	382
Depreciation	288	-	288
Electricity	12,163	-	12,163
Fire protection	539	-	539
Hot tub maintenance & supplies	14,440	-	14,440
Insurance	17,400	-	17,400
Internet	1,903	-	1,903
Landscaping	2,332	-	2,332
Legal	34	-	34
Maintenance labor & supplies	8,502	-	8,502
Management fees	25,200	-	25,200
Miscellaneous expense	125	-	125
Postage & office supplies	938	-	938
Property taxes	657	-	657
Snow removal	66,490	-	66,490
Trash	3,940	-	3,940
Water & sanitation	34,049	-	34,049
Water damage	443	-	443
Capital repairs	-	761,316	761,316
<b>TOTAL EXPENSES</b>	<b>225,624</b>	<b>761,316</b>	<b>986,940</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<b>19,836</b>	<b>(228,316)</b>	<b>(208,480)</b>
<b>BEGINNING FUND BALANCE (DEFICIT)</b>	<b>(18,471)</b>	<b>552,045</b>	<b>533,574</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 1,365</b>	<b>\$ 323,729</b>	<b>\$ 325,094</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, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>(Memo only) Total</u>
Cash flows from operating activities:			
Excess of revenues over (under) expenses	\$ 19,836	\$ (228,316)	\$ (208,480)
Adjustment to reconcile excess of revenues over (under) expenses to cash from operating activities:			
Depreciation	288	-	288
Change in assessments receivable	(4,001)	(9,487)	(13,488)
Change in interfund accounts	42,001	(42,001)	-
Change in deposits	-	144	144
Change in prepaid expenses	(18)	-	(18)
Change in accounts payable	1,529	(116,287)	(114,758)
Change in security deposits	(150)	-	(150)
Net cash flow provided (used) by operating activities	59,485	(395,947)	(336,462)
Cash flows from investing activities:			
Proceeds from certificates of deposit	-	250,630	250,630
Net increase (decrease) in cash	59,485	(145,317)	(85,832)
Cash at beginning of the year	77,730	307,182	384,912
Cash at end of the year	\$ 137,215	\$ 161,865	\$ 299,080
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, 2011

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 employees 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 11, 2011, 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 Replacement 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.

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

Pervasiveness of 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, 2011

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.

Member Assessment

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.

Assessments receivable, net is summarized as follows at August 31, 2011:

	Operating Fund	Replacement Fund	(Memo only) Total
Assessments receivable	\$ 7,359	\$ -	\$ 7,359
Special assessments receivable	-	25,454	25,454
Allowance for doubtful accounts	-	-	-
Assessments receivable, net	<u>\$ 7,359</u>	<u>\$ 25,454</u>	<u>\$ 32,813</u>

There was no bad debt expense for the year ended August 31, 2011.

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, 2011 was \$288.

See accompanying independent auditors' report.



**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE**  
**CONDOMINIUM ASSOCIATION**  
Notes to the Financial Statements  
August 31, 2011

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, 2011, the Association paid Crested Butte Lodging & Property Management, Inc., \$25,200 in management fees and \$88,212 for maintenance, snow removal and other operations.

The Association owed \$5,924 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2011.

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, 2011 the Association collected \$12,000 in Replacement Fund dues and \$520,000 in special assessment dues for the Replacement Fund. The Association expended \$761,316, primarily for siding replacement, a retaining wall, and asphalt repaving. Accumulated funds, which aggregate \$161,865 at August 31, 2011, are held in a separate account 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 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 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, 2011. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2011 was \$12,900.

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.

See accompanying independent auditors' report.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE**  
**CONDOMINIUM ASSOCIATION**  
Notes to the Financial Statements  
August 31, 2011

Note 7 INCOME TAXES (Continued)

As of August 31, 2011, the Association has a federal net operating loss carry forward of \$28,456 as follows:

August 31, 2025	\$ 14,103
August 31, 2026	5,467
August 31, 2029	8,886
	<u>\$ 28,456</u>

This carry forward creates a deferred tax asset of approximately \$4,260. However, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 8 TIMESHARE UNITS

Four units in the development have been divided into timeshare weeks which grant ownership rights for a certain time period to their owners. Each of these units is assessed the same dues as the 36 units which are not divided and each week is represented as a partial voting right in the Association. The extra operating costs specifically related to these units are borne by the weekly owners through assessments levied by their weekly owners association which is separate from the Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association. None of their assessments or expenses are included in these financial statements.

Note 9 SPECIAL ASSESSMENT

During the year ended August 31, 2011, the Board of Directors passed a special assessment of \$13,000 per unit totaling \$520,000 to be paid in full by April 1, 2011 to repave parking areas, re-work sewer lines, complete the replacement of siding on the sides and rear of each building, and build a retaining wall. Of the total special assessment amount charged during the current year, \$14,072 is outstanding at August 31, 2011 and is included in Assessments receivable in the Replacement Fund. The remaining \$11,382 included in Assessments receivable in the Replacement Fund represents uncollected amounts from the \$12,000 special assessment levied by the Board of Directors during the year ended August 31, 2010.

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, 2011, and our report thereon dated November 11, 2011, 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 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 11, 2011

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE**  
**CONDOMINIUM ASSOCIATION**  
Statements of Revenues and Expenses - Budget Versus Actual (Non-GAAP)  
For the Year Ended August 31, 2011

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment income	\$ 240,000	\$ 240,000	\$ -
Special assessments	-	520,000	520,000
Rental income	16,200	12,900	(3,300)
Interest income	24	1,022	998
Other income	505	650	145
Late fees	4,200	3,888	(312)
<b>TOTAL REVENUES</b>	<u>260,929</u>	<u>778,460</u>	<u>517,531</u>
<b>EXPENSES</b>			
Audit & tax return	3,400	2,025	1,375
Bad debt expense	6,000	-	6,000
Bank charges	24	31	(7)
Board of directors	900	1,803	(903)
Bobcat maintenance	1,900	879	1,021
Cable television	13,154	13,258	(104)
Chimney cleaning	3,100	-	3,100
Common area cleaning	10,000	9,893	107
Contract labor	7,200	7,910	(710)
Decorations	200	382	(182)
Depreciation	564	288	276
Electricity	19,302	12,163	7,139
Fire protection	500	539	(39)
Hot tub maintenance & supplies	12,600	14,440	(1,840)
Insurance	18,315	17,400	915
Internet	2,520	1,903	617
Landscaping	2,500	2,332	168
Legal	2,520	34	2,486
Maintenance labor & supplies	16,800	8,502	8,298
Management fees	25,200	25,200	-
Miscellaneous expense	-	125	(125)
Postage & office supplies	480	938	(458)
Property taxes	700	657	43
Snow removal	60,000	66,490	(6,490)
Trash	6,200	3,940	2,260
Water & sanitation	33,950	34,049	(99)
Water damage	-	443	(443)
Capital repairs	-	761,316	(761,316)
<b>TOTAL EXPENSES</b>	<u>248,029</u>	<u>986,940</u>	<u>(738,911)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENSES</b>	<u>\$ 12,900</u>	<u>\$ (208,480)</u>	<u>\$ (221,380)</u>

See accompanying independent auditors' report.

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

Supplemental Information on Future Major Repairs and Replacements (Compiled)  
August 31, 2011

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. 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.)

	2012	2013	2014	2015
Rework sewer lines	\$ -	\$ -	\$ -	\$ -
Replace concrete curb/gutter	-	-	-	-
Replace concrete garage aprons	-	-	-	-
Mud jack garage slabs	-	4,400	-	4,400
Repave upper and lower parking	-	-	-	-
Replace wall heaters	4,100	4,100	4,100	-
Replace garage doors	42,500	-	-	-
Replace balcony decks	115,200	-	-	-
Utility and meter covers	12,500	-	-	-
Replace two sauna heaters	8,700	-	-	-
Replace lower hot tub	14,000	-	-	-
Replace stucco with siding	100,000	-	-	-
Update Wi-Fi equipment	-	5,000	-	-
Replace 3 hot water heaters	-	4,500	-	-
Upgrade lower sauna/restroom	-	20,900	-	-
Maintenance of two apartments	-	7,000	-	-
Replace guard rails	-	-	34,300	-
Replace interior unit front doors	-	-	16,300	-
Replace small retaining walls	-	-	-	46,500
	<u>\$ 297,000</u>	<u>\$ 45,900</u>	<u>\$ 54,700</u>	<u>\$ 50,900</u>

See accompanying independent auditors' report.