

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

FINANCIAL STATEMENTS

AUGUST 31, 2017

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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, 2017, and the related statements of revenues, expenses, and changes in fund balances 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 as of August 31, 2017, 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, Hitchcock & Associates, P.C.

McNurlin, Hitchcock & Associates, P.C.

Lakewood, Colorado

December 12, 2017

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

Balance Sheet
August 31, 2017

	Operating Fund	Capital Replacement Fund	(Memo only) Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 139,697	\$ 95,575	\$ 235,272
Assessments receivable	4,272	-	4,272
Insurance claim receivable	1,159	-	1,159
Prepaid expenses	6,285	-	6,285
Due from Capital Replacement Fund	10,840	-	10,840
Total Current Assets	<u>162,253</u>	<u>95,575</u>	<u>257,828</u>
Property and Equipment			
Furniture and equipment	29,518	-	29,518
Less accumulated depreciation	(27,416)	-	(27,416)
Property and Equipment, net	<u>2,102</u>	<u>-</u>	<u>2,102</u>
TOTAL ASSETS	<u><u>\$ 164,355</u></u>	<u><u>\$ 95,575</u></u>	<u><u>\$ 259,930</u></u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 42,428	\$ -	\$ 42,428
Prepaid assessments	6,100	-	6,100
Due to Operating Fund	-	10,840	10,840
Total Current Liabilities	<u>48,528</u>	<u>10,840</u>	<u>59,368</u>
Fund Balances	<u>115,827</u>	<u>84,735</u>	<u>200,562</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 164,355</u></u>	<u><u>\$ 95,575</u></u>	<u><u>\$ 259,930</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, 2017

	Operating Fund	Capital Replacement Fund	(Memo only) Total
REVENUES			
Assessment income	\$ 248,400	\$ 39,600	\$ 288,000
Insurance claim income	79,511	-	79,511
Rental income	14,400	-	14,400
Interest income	-	39	39
Other income	1,099	-	1,099
Late fees	189	-	189
TOTAL REVENUES	343,599	39,639	383,238
EXPENSES			
Professional fees	3,800	-	3,800
Board of directors	248	-	248
Cable television	16,085	-	16,085
Common area cleaning	11,650	-	11,650
Contract labor	14,192	-	14,192
Depreciation	519	-	519
Electricity	19,109	-	19,109
Fire protection	1,110	-	1,110
Hot tub maintenance and supplies	14,537	-	14,537
Insurance	20,439	-	20,439
Insurance claim expenses	79,511	-	79,511
Internet	135	-	135
Landscaping	10,613	-	10,613
Maintenance labor and supplies	17,190	-	17,190
Management fees	28,080	-	28,080
Miscellaneous expense	241	-	241
Postage and office supplies	208	-	208
Roof repairs	1,737	-	1,737
Snow removal	79,209	-	79,209
Trash	5,259	-	5,259
Water damage	1,977	-	1,977
Water and sanitation	39,741	-	39,741
Capital repairs	-	103,049	103,049
TOTAL EXPENSES	365,590	103,049	468,639
EXCESS OF EXPENSES OVER REVENUES	(21,991)	(63,410)	(85,401)
BEGINNING FUND BALANCES	137,818	148,145	285,963
ENDING FUND BALANCES	\$ 115,827	\$ 84,735	\$ 200,562

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, 2017

	Operating Fund	Capital Replacement Fund	(Memo only) Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of expenses over revenues	\$ (21,991)	\$ (63,410)	\$ (85,401)
Adjustment to reconcile excess of expenses over revenues to cash used in operating activities:			
Depreciation	519	-	519
Change in:			
Assessments receivable	(1,200)	-	(1,200)
Insurance claim receivable	(1,159)	-	(1,159)
Prepaid expenses	(4,565)	-	(4,565)
Interfund liabilities	(20,527)	20,527	-
Accounts payable	30,070	-	30,070
Prepaid assessments	700	-	700
NET CASH USED IN OPERATING ACTIVITIES	(18,153)	(42,883)	(61,036)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,873)	-	(1,873)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-	-
NET DECREASE IN CASH	(20,026)	(42,883)	(62,909)
CASH, BEGINNING OF YEAR	159,723	138,458	298,181
CASH, END OF YEAR	\$ 139,697	\$ 95,575	\$ 235,272
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, 2017

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 on July 9, 1982. 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 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 12, 2017, 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 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.

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Notes to the Financial Statements
August 31, 2017

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 generally accepted accounting principles required 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 over \$500, and with an estimated life of more than one year, at cost. The personal property is depreciated over an estimated useful life ranging from five to ten years using tax depreciation methods, which approximates the straight-line method. Depreciation expense for the year ended August 31, 2017 was \$519.

Member Assessments

Association members are subject to monthly installments of the annual assessment to provide funds for the Association's operating expenses, future capital acquisition, and major repairs and replacements. 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

Assessments receivable at the balance sheet date represent amounts 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 to the Association, and the past collection history of the Association, an allowance for uncollectible assessments is not considered necessary.

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Notes to the Financial Statements
August 31, 2017

Note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collection Policy

Members are subject to monthly installments of the annual assessment, which become delinquent if they are not paid by the 10th day of each month. Delinquent assessments bear interest at the rate of 18% per annum beginning on the first day of delinquency until paid in full. In addition to interest, the Association may apply a \$10 late charge to a delinquent account. Prior to referral to the Association's legal counsel or a collection agency, the Association mails the owner a notice that specifies the total amount due, whether the opportunity to enter into a payment plan exists and instructions to initiate the payment plan, and that action is required to cure the delinquency within 30 days. If the delinquency is not cured within 30 days, the account is referred to legal counsel or a collection agency for collection.

Prepaid Expenses

Prepaid expenses are expenditures made in advance of when the economic benefit of the cost will be realized, and which will be expensed in future periods. See Note 7.

Prepaid Assessments

Prepaid assessments represent member assessments received in advance of the period earned.

Note 4 MANAGEMENT CONTRACTS AND RELATED PARTY

The Association's daily operations are managed by Crested Butte Lodging & Property Management, Inc. in accordance with a management agreement. The agreement automatically renews annually on September 1st until terminated by either party. During the year ended August 31, 2017, the Association paid Crested Butte Lodging & Property Management, Inc. \$121,084, which includes \$28,080 in management fees; \$11,370 in common area cleaning; \$14,223 in hot tub maintenance and supplies; \$10,065 in landscaping; \$17,190 in maintenance labor and supplies; \$29,215 in snow removal; \$3,247 in capital repairs; and \$7,694 in other operating expenses. The Association owes \$6,559 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2017, which is included in Accounts Payable on the Balance Sheet.

The Association owns 2 units, which it leased to Crested Butte Lodging & Property Management, Inc. at a rate of \$600 per month during the year ended August 31, 2017. Total rental income collected from Crested Butte Lodging & Property Management, Inc. during the year ended August 31, 2017 was \$14,400.

See accompanying independent auditors' report.

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

Notes to the Financial Statements

August 31, 2017

Note 4 MANAGEMENT CONTRACTS AND RELATED PARTY (Continued)

During the year ended August 31, 2017, the Association paid the Snow Team CB Inc. \$49,994 for snow removal and shoveling services. There is common ownership between Crested Butte Lodging & Property Management, Inc. and Snow Team CB Inc. There are no amounts owed to Snow Team CB Inc. as of August 31, 2017.

Note 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS

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. It is the Association's policy to allocate interest earned on such funds to the Capital Replacement Fund. During the year ended August 31, 2017 the Association collected \$39,600 in Capital Replacement Fund dues. During that same period, expenditures from the Capital Replacement Fund totaled \$103,049, primarily for contactor boxes, mud jacking, refurbishments, and asphalt repairs.

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, levy special assessments, borrow funds or postpone repairs and 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, 2017. 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.

See accompanying independent auditors' report.

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Notes to the Financial Statements
August 31, 2017

Note 6 INCOME TAXES (Continued)

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, 2017, the Association's tax years for 2013, 2014 and 2015 are open to examination by taxing authorities.

As of August 31, 2017, 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
August 31, 2037	329
	<u>\$ 22,317</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 PREPAID EXPENSES

Prepaid expenses as of August 31, 2017 is comprised of prepaid insurance in the amount of \$6,285.

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Notes to the Financial Statements
August 31, 2017

Note 8 INSURANCE CLAIM

During the year ended August 31, 2017, a water leak damaged the interior of a unit, and the Association submitted a claim to its insurance provider. The insurance provider reimbursed the Association for the estimated cost of repairs, less a \$5,000 deductible. The unit owner reimbursed the Association for the \$5,000 deductible. The Association received reimbursements relating to the claim totaling \$79,511.

The contractor repaired the damage at a cost of \$79,511. As all costs were reimbursed, the Association reported both Insurance claim income and Insurance claim expenses of \$79,511 on the Statement of Revenues, Expenses and Changes in Fund Balances for the year ended August 31, 2017. As of August 31, 2017, the insurance provider owed the Association \$1,159 of the total reimbursement, which is reported as Insurance claim receivable on the Balance Sheet.

SUPPLEMENTAL INFORMATION

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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, 2017, and our report thereon dated December 12, 2017, 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 13 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, Hitchcock & Associates, P.C.

McNurlin, Hitchcock & Associates, P.C.
Lakewood, Colorado
December 12, 2017

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, 2017

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Assessment income	\$ 288,000	\$ 288,000	\$ -
Insurance claim income	-	79,511	79,511
Rental income	14,400	14,400	-
Interest income	24	39	15
Other income	1,000	1,099	99
Late fees	120	189	69
TOTAL REVENUES	303,544	383,238	79,694
EXPENSES			
Professional fees	4,650	3,800	850
Board of directors	300	248	52
Bad debt expense	10,774	-	10,774
Cable television	15,627	16,085	(458)
Common area cleaning	11,800	11,650	150
Contract labor	9,200	14,192	(4,992)
Depreciation	-	519	(519)
Electricity	23,900	19,109	4,791
Fire protection	1,600	1,110	490
Hot tub maintenance and supplies	12,000	14,537	(2,537)
Insurance	20,361	20,439	(78)
Insurance claim expenses	-	79,511	(79,511)
Internet	140	135	5
Landscaping	2,200	10,613	(8,413)
Maintenance labor and supplies	17,420	17,190	230
Management fees	28,080	28,080	-
Miscellaneous expense	500	241	259
Postage and office supplies	155	208	(53)
Property tax	605	-	605
Roof repairs	-	1,737	(1,737)
Snow removal	59,000	79,209	(20,209)
Trash	4,400	5,259	(859)
Water and sanitation	39,708	39,741	(33)
Water damage	1,500	1,977	(477)
Capital repairs	24,600	103,049	(78,449)
TOTAL EXPENSES	288,520	468,639	(180,119)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	\$ 15,024	\$ (85,401)	\$ (100,425)

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, 2017

An informal study was performed in 2014, and updated in 2017, 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 which will require replacement in the next ten years. Estimated costs after ten years have not been included.

	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost
Exterior building maintenance	0 - 9	\$ 165,800
Replace sauna heaters	2	9,600
Parking lot maintenance	1 - 10	88,700
Replace timber retaining walls	0 - 7	9,400
Refurbish retaining walls	1	25,000
Replace guard rails	3	42,900
Repair garage apron drains	2	1,800
Repairs to common halls	1	34,500
Common hall carpet	1	15,600
		<u>\$ 393,300</u>

See accompanying independent auditors' report on supplemental information.