

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

FINANCIAL STATEMENTS

AUGUST 31, 2009

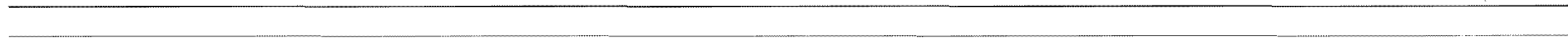


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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association, Inc. as of August 31, 2009 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, Inc. at August 31, 2009 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of revenues and expenses-budget versus actual and supplemental information on future major repairs and replacements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

McNurlin & Associates, P.C.

McNurlin & Associates, P.C.
Lakewood, Colorado
October 19, 2009

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

Balance Sheet
August 31, 2009

	Operating <u>Fund</u>	Capital Replacement <u>Fund</u>	Special Projects <u>Fund</u>	(Memo only) <u>Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 56,580	\$ -	\$ 444,980 ✓	\$ 501,560
Assessments receivable-net	6,243	-	-	6,243
Special assessment receivable	-	-	49,000 ✓	49,000
Due from operating fund	-	87,350	-	87,350
Clean up deposit	-	-	7,195 ✓	7,195
Prepaid expenses	2,996	-	-	2,996
Total Current Assets	65,819	87,350	501,175 ✓	654,344
Property & Equipment				
Furniture & equipment	25,790	-	-	25,790
Less accumulated depreciation	(24,380)	-	-	(24,380)
Net Property & Equipment	1,410	-	-	1,410
TOTAL ASSETS	\$ 67,229	\$ 87,350	\$ 501,175	\$ 655,754
LIABILITIES AND FUND BALANCES				
Current Liabilities				
Accounts payable	\$ 9,519	\$ -	\$ 74,427 ✓	\$ 83,946
Due to other funds	86,941	-	409 ✓	87,350
Security deposits	1,350	-	-	1,350
Prepaid assessments	2,790	-	-	2,790
Total Current Liabilities	100,600	-	74,836	175,436
Fund Balance (Deficit)	(33,371)	87,350	426,339 ✓	480,318
TOTAL LIABILITIES AND FUND BALANCES	\$ 67,229	\$ 87,350	\$ 501,175	\$ 655,754

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

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION, INC.**
Statement of Revenues, Expenses and Changes in Fund Balances
For the year ended August 31, 2009

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
REVENUES				
Member assessment	\$ 200,000	\$ -	\$ -	\$ 200,000
Special assessment	-	-	640,000	640,000
Replacement assessment	-	-	40,000	40,000
Rental income	15,900	-	-	15,900
Interest income	130	-	4,055	4,185
Other income	516	-	-	516
Siding settlement	-	-	229,000	229,000
Late fees	4,714	-	-	4,714
TOTAL REVENUES	<u>221,260</u>	<u>-</u>	<u>913,055</u>	<u>1,134,315</u>
EXPENSES				
Attorney fees-siding lawsuit	-	-	6,740	6,740
Audit & tax return	2,250	-	-	2,250
Bad debt	9,000	-	-	9,000
Bank charges	51	-	70	121
Board of directors	810	-	-	810
Bobcat maintenance	1,169	-	-	1,169
Cable television	12,118	-	-	12,118
Capital repairs-other	-	-	33,833	33,833
Chimney cleaning	1,683	-	-	1,683
Common area cleaning	9,216	-	-	9,216
Contract labor	3,667	-	-	3,667
Decorations	149	-	-	149
Depreciation	564	-	-	564
Electrical panel replacement	-	-	44,000	44,000
Electricity	16,024	-	-	16,024
Fire protection	973	-	-	973
Firewood	136	-	-	136
Hot tub maintenance & supplies	11,604	-	-	11,604
Insurance	15,296	-	-	15,296
Internet	2,778	-	-	2,778
Landscaping	1,526	-	-	1,526
Legal	1,054	-	-	1,054
Maintenance labor & supplies	17,516	-	-	17,516
Management fees	25,200	-	-	25,200
Postage & office supplies	671	-	-	671
Property taxes	707	-	-	707
Roof repair & replacement	136	-	342,066	342,202
Siding repair	-	-	10,879	10,879
Snow removal	57,014	-	-	57,014
Trash	8,934	-	-	8,934
Water & sanitation	32,641	-	-	32,641
Water damage	5,882	-	17,434	23,316
TOTAL EXPENSES	<u>238,769</u>	<u>-</u>	<u>455,022</u>	<u>693,791</u>
Excess of Revenues Over (Under) Expenses	(17,509)	-	458,033	440,524
Beginning Fund Balances (Deficit)	(35,862)	87,350	(11,694)	39,794
Fund Transfers	20,000	-	(20,000)	-
Ending Fund Balances (Deficit)	<u>\$ (33,371)</u>	<u>\$ 87,350</u>	<u>\$ 426,339</u>	<u>\$ 480,318</u>

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

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

Statement of Cash Flows
For the year ended August 31, 2009

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
Cash Flows from Operating Activities:				
Excess Revenues Over (Under) Expenses	\$ (17,509)	\$ -	\$ 458,033	\$ 440,524
Adjustments				
Depreciation	564	-	-	564
Bad debt	9,000	-	-	9,000
Change in assessments receivable-net	(13,771)	-	-	(13,771)
Change in special assessment receivable	-	-	(49,000)	(49,000)
Change in due to/from other funds	(409)	-	409	-
Change in clean up deposit	-	-	(7,195)	(7,195)
Change in prepaid expenses	(1,644)	-	1,004	(640)
Change in accounts payable	(1,677)	-	55,166	53,489
Change in security deposits	150	-	-	150
Change in prepaid assessments	(460)	-	-	(460)
Net Cash Flows Provided (Used) by Operating Activities	(25,756)	-	458,417	432,661
Cash Flows from Financing Activities:				
Fund transfers	20,000	-	(20,000)	-
Net Cash Flows Provided (Used) by Financing Activities	20,000	-	(20,000)	-
Cash Flows from Investing Activities:				
	-	-	-	-
Net Increase (Decrease) in Cash	(5,756)	-	438,417	432,661
Cash at Beginning of Year	62,336	-	6,563	68,899
Cash at End of Year	<u>\$ 56,580</u>	<u>\$ -</u>	<u>\$ 444,980</u>	<u>\$ 501,560</u>
Supplemental Information:				
Cash Paid for Interest				<u>\$ -</u>
Cash Paid for Income Taxes				<u>\$ -</u>

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

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

Notes to the Financial Statements
August 31, 2009

Note 1 NATURE OF ORGANIZATION

The Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association, Inc., is a statutory townhouse association organized as a non-profit corporation incorporated in the State of Colorado in August, 1981. The Association is responsible for the operation and maintenance of the common property of the Eagle's Nest Townhouses, a forty-unit residential complex in Mt. Crested Butte, CO. In addition, two small studio units are owned in common by the members and are rented to employees working in Mt. Crested Butte area.

Note 2 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, funds designated for future major repairs and replacements and funds for special projects, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors and the property manager. Disbursements from the capital replacement fund and special projects fund generally must be made for designated purposes.

Pervasiveness of Estimates

The preparation of financial statements to conformity with generally accepted principles 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.

Member Assessment

Association members are subject to monthly assessments based on a flat rate per unit 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 uncollectable assessments of \$9,000 is considered necessary at August 31, 2009.

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. The property owned in common includes building exteriors, common interior areas, asphalt, decks garages, hot tubs, employee units, furniture, fixtures, etc. Accordingly, these assets are not recorded on the Association's financial statements.

See accompanying independent auditors' report

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
 CONDOMINIUM ASSOCIATION, INC.**
 Notes to the Financial Statements
 August 31, 2009

Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Assets and Depreciation Policy (continued)

The Association recognizes personal property assets at cost. The personal property is depreciated over estimated useful lives ranging from 5 to 10 years using tax depreciation methods which are approximately the same as straight line methods. Depreciation for the year ended August 31, 2009, was \$564.

Interest earned

The Board of Directors has a policy to allocate all interest earned on cash and investments to the operating fund.

Note 3 INCOME TAXES

The Association qualifies under Section 277 of the Internal Revenue Code. According to Internal Revenue Service (IRS) regulations, any excess of "common" revenues over "common" expenses can be applied to future assessments. However, any income and expenses unrelated to member assessments are offset to determine taxable income or net operating loss. Income will be taxes according to these IRS regulations. The Association has a net operating loss carry forwards of at August 31, 2009, as follows:

<u>Expiration</u>	<u>Amount of Loss</u>
August 31, 2023	\$ 288
August 31, 2024	5,163
August 31, 2025	15,006
August 31, 2026	5,467
August 31, 2029	8,886
Total	<u>\$ 34,810</u>

These carry forwards create a deferred tax asset; however, the Association has established a valuation allowance against the deferred tax asset, resulting in no effect on the accompanying financial statements.

Note 4 MANAGEMENT CONTRACTS

The Association contracted with Crested Butte Lodging & Property Management, Inc., to manage its daily operations and maintenance of the physical property for the year ended August 31, 2009, plus the cost of other operations performed. During the year ended August 31, 2009, the Association paid Crested Butte Lodging & Property Management, Inc., \$25,200 in management fees and \$74,382 for other operations.

See accompanying independent auditors' report

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

Notes to the Financial Statements
August 31, 2009

Note 5 FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements. During the year ended August 31, 2009 the Association collected \$40,000 in dues designated for the Special Projects Fund. At August 31, 2009, the Operating Fund owed the Capital Replacement Fund \$87,350 and the Special Projects Fund owed the Operating Fund \$409.

Funds are being accumulated in the Replacement Fund based on estimates of future needs for repairs and replacements of common property components as disclosed in the Supplemental Information on Future Major Repairs and Replacements. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the 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 delay major repairs and replacements until funds are available.

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 from September 1, 2008 through August 31, 2009. Total rent paid by Crested Butte Lodging & Property Management, Inc., to the Association for the year ended August 31, 2009, was \$15,900.

Note 7 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, Inc. None of their assessments or expenses are included in these financial statements.

Note 8 RELATED PARTY TRANSACTIONS

The Association paid \$232 to Mountainscape Earthworks for maintenance supplies during the year ended August 31, 2009. Mountainscape Earthworks and Crested Butte Lodging & Property Management, Inc have some common ownership.

Note 9 SIDING LAWSUIT

The Association filed a lawsuit in 2008 against the manufacturer, the installer and various other parties relating to problems discovered with the building siding. During the year ended August 31, 2009, the Association settled the lawsuit and received a check in the amount of \$229,000.

Note 10 SPECIAL ASSESSMENT

During the year ended August 31, 2009, the Board of Directors passed special assessments totaling \$640,000. The first special assessment totaling \$160,000 was made to start the major projects noted in an engineering report dated August 10, 2007. The second special assessment totaling \$480,000 was made to fix asphalt up to the upper hot tub and to replace the roof.

See accompanying independent auditors' report

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

Notes to the Financial Statements

August 31, 2009

Note 11 FDIC INSURANCE LIMITS

At August 31, 2009, the Association had funds in one banking institution totaling \$250,837 where the FDIC insurance limit was \$250,000. The Association also had funds in a second bank totaling \$250,723 where the insurance limit was also \$250,000.

Note 12 ASSESSMENTS RECEIVABLE-NET

During the year ended August 31, 2009, the Association established an allowance for doubtful accounts totaling \$9,000. The Assessments receivable-net at August 31, 2009 was as follows:

Assessments Receivable	\$ 15,243
Allowance for Doubtful Accounts	<u>(9,000)</u>
Assessments Receivable - Net	<u>\$ 6,243</u>

See accompanying independent auditors' report

SUPPLEMENTAL INFORMATION

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

Statement of Revenues and Expenses - Budget Versus Actual
(non-GAAP)

For the year ended August 31, 2009

	<u>Unaudited Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Member assessment	\$ 200,000	\$ 200,000	\$ -
Special assessment	-	640,000	640,000
Replacement assessment	40,000	40,000	-
Rental income	14,400	15,900	1,500
Interest income	600	4,185	3,585
Other income	1,400	516	(884)
Siding settlement	-	229,000	229,000
Late fees	420	4,714	4,294
TOTAL REVENUES	256,820	1,134,315	877,495
EXPENSES			
Appraisal	1,800	-	1,800
Attorney fees-siding lawsuit	-	6,740	(6,740)
Audit & tax return	2,500	2,250	250
Bad debt	-	9,000	(9,000)
Bank charges	60	121	(61)
Board of directors	300	810	(510)
Bobcat maintenance	5,650	1,169	4,481
Cable television	12,564	12,118	446
Capital repairs-other	-	33,833	(33,833)
Chimney cleaning	5,000	1,683	3,317
Common area cleaning	10,400	9,216	1,184
Contract labor	9,000	3,667	5,333
Decorations	300	149	151
Depreciation	50	564	(514)
Electrical panel replacement	-	44,000	(44,000)
Electricity	20,508	16,024	4,484
Fire protection	320	973	(653)
Firewood	450	136	314
Hot tub maintenance & supplies	12,500	11,604	896
Insurance	16,488	15,296	1,192
Internet	1,532	2,778	(1,246)
Landscaping	2,250	1,526	724
Legal	1,100	1,054	46
Maintenance labor & supplies	9,400	17,516	(8,116)
Management fees	25,200	25,200	-
Postage & office supplies	900	671	229
Property taxes	700	707	(7)
Roof repair & replacement	-	342,202	(342,202)
Siding repair	-	10,879	(10,879)
Snow removal	45,340	57,014	(11,674)
Trash	13,028	8,934	4,094
Water & sanitation	33,512	32,641	871
Water damage	2,400	23,316	(20,916)
TOTAL EXPENSES	233,252	693,791	(460,539)
EXCESS OF REVENUES OVER (UNDER) EXPENSES	\$ 23,568	\$ 440,524	\$ 416,956

See accompanying independent auditors' report

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

Supplemental Information on Future Major Repairs and Replacements (Compiled)
For the year ended August 31, 2009

A study was performed in 2007 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.)

	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Capital projects	\$ 20,000	\$ 10,000	\$ 10,000
Deck	-	-	700,000
Stucco repair, chimney	10,000	-	-
Sewer line	70,000	-	-
Common area heaters	13,000	-	-
Upper driveway	54,000	-	-
Erosion control	40,000	-	-
Flat roofs	10,000	-	-
Mud jack garage slabs	-	20,000	-
Lower driveway	-	56,000	-
Windows	-	20,000	-
Cedar siding	-	400,000	-
	<u>\$ 217,000</u>	<u>\$ 506,000</u>	<u>\$ 710,000</u>

See accompanying independent auditors' report.