McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard
Lakewood, Colorado 80227
303-988-5648 FAX: 303-988-5919
don@mcnurlincpa.com

To the management and board of directors of
Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association

We have audited the financial statements of the Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association, for the year ended August 31, 2010, and have issued our report thereon dated January 16, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have discussed the audit with management and have outlined our responsibilities, etc. in our engagement letter dated August 1, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association are described in Note 3 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended August 31, 2010. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> The cash and short-term investments in the reserve fund totals $557,812. The required reserve was determined based on a study made in 2010. Since an impartial reserve study has not been conducted in the past three years, it is not known if this amount is adequate to pay for all repairs and replacements in future periods.
>
> Management's estimate of the allowance for doubtful accounts is based on results of the debt collection and the Associations right to enforce the collection of assessments by placing a lien on the underlying title to the property. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole however it is not known if the $21,350 allowance for bad debts is adequate.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> Note 5 to the financial statements: 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 determine 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.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was one material misstatement detected as a result of audit procedures and the proposed adjustment to the Associations records has been approved by management. It was agreed that an allowance for doubtful accounts of $12,350 should be recorded.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 16, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants. Furthermore, we have no reason to believe that such a consultation is necessary.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In addition we did discuss the following recommendations with management to improve internal controls within the Association.

Segregation of duties

The management company, Crested Butte Lodging & Management, Inc. is a small company with limited ability to segregate all accounting functions. Because of its size there is a risk that the management company could create a material discrepancy and it not be detected during the normal course of operation. In order to reduce this risk, we recommend that the Board of Directors take a very active role in the accounting process including involvement in preparing and reviewing the annual budget, reviewing historical financial statements, reviewing bids and selecting contractors to do major projects, controlling major projects with separate detailed budgets, etc. In addition, we recommend that a Board member, possibly the Treasurer, receive a copy of all monthly bank statements, including all deposit slips and cancelled checks, directly to his or her home or office. This Board member needs to review all transactions for the month to determine that all items are reasonable and no unusual or unexpected items were noted.

Due to Operating Fund

As of August 31, 2010, the Operating Fund owes the Replacement Fund $92,050. We suggest the Association's management take steps to eliminate this interfund balance either through the budgeting process or by making an election to permanently transfer the equity back to the operating fund. This should be addressed prior to the following fiscal year-end.

Insurance coverage

The Association's condominium declarations recommend the Association carry fidelity insurance on all employees and unpaid members of the Board. We suggest the Association review their current insurance and ascertain they have the appropriate coverage.

This information is intended solely for the use of the board of directors and management of the Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

McN & Associates, P.C.

McNurlin & Associates, P.C.
Lakewood, Colorado
January 16, 2011

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

FINANCIAL STATEMENTS

AUGUST 31, 2010

TABLE OF CONTENTS

Page

Independent Auditors' Report.......... 1

Financial Statements

Balance Sheet.......... 2

Statement of Revenues, Expenses and Changes in Fund Balances.......... 3

Statement of Cash Flows.......... 4

Notes to the Financial Statements.......... 5

Supplemental Information

Statement of Revenues and Expenses- Budget Versus Actual (Non-GAAP).......... 10

Supplemental Information on Future Major Repairs and Replacements (Compiled).......... 11

McNURLIN & ASSOCIATES, P.C.

Certified Public Accountants

2535 South Wadsworth Boulevard
Lakewood, Colorado 80227
303-988-5648 FAX: 303-988-5919
don@mcnurlincpa.com

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, 2010 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, 2010, 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.

McN & Associates P.C.

McNurlin & Associates, P.C.
Lakewood, Colorado
January 16, 2011

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Balance Sheet
August 31, 2010

	Operating Fund	Replacement Fund	(Memo only) Total
ASSETS			
Cash and cash equivalents	$ 77,730	$ 307,182	$ 384,912
Certificates of deposit	-	250,630	250,630
Assessments receivable, net	3,358	15,967	19,325
Due from operating fund	-	92,050	92,050
Deposits	-	7,000	7,000
Prepaid expenses	1,233	-	1,233
Total current assets	82,321	672,829	755,150
Property and Equipment			
Furniture and equipment	25,790	-	25,790
Less accumulated depreciation	(24,783)	-	(24,783)
Net property & equipment	1,007	-	1,007
TOTAL ASSETS	$ 83,328	$ 672,829	$ 756,157
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	$ 8,399	$ 120,784	$ 129,183
Due to replacement fund	92,050	-	92,050
Security deposits	1,350	-	1,350
Prepaid assessments	-	-	-
Total current liabilities	101,799	120,784	222,583
Fund Balances (deficit)	(18,471)	552,045	533,574
TOTAL LIABILITIES AND FUND BALANCES	$ 83,328	$ 672,829	$ 756,157

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, 2010

	Operating Fund	Replacement Fund	(Memo only) Total
REVENUES			
Assessment income	$ 222,000	$ 18,000	$ 240,000
Special assessment	-	480,000	480,000
Rental income	16,200	-	16,200
Interest income	20	1,878	1,898
Other income	556	-	556
Late fees	5,075	-	5,075
TOTAL REVENUES	243,851	499,878	743,729
EXPENSES			
Audit & tax return	3,400	-	3,400
Bad debt expense	350	12,000	12,350
Bank charges	28	-	28
Board of directors	1,198	-	1,198
Bobcat maintenance	1,631	-	1,631
Cable television	13,104	-	13,104
Chimney cleaning	4,905	-	4,905
Common area cleaning	9,742	-	9,742
Contract labor	10,243	-	10,243
Decorations	151	-	151
Depreciation	403	-	403
Electricity	19,115	-	19,115
Fire protection	270	-	270
Hot tub maintenance & supplies	13,193	-	13,193
Insurance	18,270	-	18,270
Internet	2,413	-	2,413
Landscaping	1,765	-	1,765
Legal	2,544	-	2,544
Maintenance labor & supplies	13,634	-	13,634
Management fees	25,200	-	25,200
Postage & office supplies	197	-	197
Property taxes	637	-	637
Snow removal	48,422	-	48,422
Trash	4,372	-	4,372
Water & sanitation	33,514	-	33,514
Water damage	250	-	250
Capital repairs	-	449,522	449,522
TOTAL EXPENSES	228,951	461,522	690,473
EXCESS OF REVENUES OVER EXPENSES	14,900	38,356	53,256
BEGINNING FUND BALANCE (DEFICIT)	(33,371)	513,689	480,318
ENDING FUND BALANCE (DEFICIT)	$ (18,471)	$ 552,045	$ 533,574

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, 2010

	Operating Fund	Replacement Fund	(Memo only) Total
Cash flows from operating activities:			
Excess of revenues over expenses	$ 14,900	$ 38,356	$ 53,256
Adjustment to reconcile excess of revenues over expenses to cash from operating activities:			
Depreciation	403	-	403
Bad debt expense	350	12,000	12,350
Change in assessments receivable	2,535	21,033	23,568
Change in inter-fund accounts	5,109	(5,109)	-
Change in deposits	-	195	195
Change in prepaid expenses	1,763	-	1,763
Change in accounts payable	(1,120)	46,357	45,237
Change in prepaid assessments	(2,790)	-	(2,790)
Net cash flow provided (used) by operating activities	21,150	112,832	133,982
Cash flows from investing activities:			
Investment in certificates of deposit	-	(250,630)	(250,630)
Net increase (decrease) in cash	21,150	(137,798)	(116,648)
Cash at beginning of the year	56,580	444,980	501,560
Cash at end of the year	$ 77,730	$ 307,182	$ 384,912
Supplemental Information:			
Cash paid for interest			$ -
Cash paid for income taxes			$ -

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

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 January 16, 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.

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 however management has deemed that a portion of assessments may be uncollectible.

Assessments receivable, net is summarized as follows at August 31, 2010:

	Operating Fund	Replacement Fund	(Memo only) Total
Assessments receivable	$ 20,273	$ -	$ 20,273
Special assessments receivable	-	154,870	154,870
Allowance for doubtful accounts	(6,556)	(12,000)	(18,556)
Assessments receivable, net	$ 13,717	$ 142,870	$ 156,587

Bad debt expense for the year ended August 31, 2010 was $12,350.

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, 2010 was $403.

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, 2010, the Association paid Crested Butte Lodging & Property Management, Inc., $25,200 in management fees and $77,558 for maintenance, snow removal and other operations.

The Association owed $3,324 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2010.

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, 2010 the Association collected $18,000 in replacement fund dues and $480,000 in special assessment dues for the replacement fund. The Association expended $449,522, primarily for siding and roof replacement and exterior electrical panels. Accumulated funds, which aggregate $557,812 at August 31, 2010, 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 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, 2010. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2010 was $16,200.

Note 7 FDIC INSURANCE LIMITS

At August 31, 2010, the Association had interest-bearing funds in one banking institution totaling $250,630 where the FDIC insurance limit was $250,000. The Association also had interest-bearing funds in a second bank totaling $371,409 where the insurance limit was also $250,000.

Note 8 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, 2010, the Association has a federal net operating loss carry forward of $29,578 as follows:

August 31, 2024	$	219
August 31, 2025		15,006
August 31, 2026		5,467
August 31, 2029		8,886
	$	29,578

This carry forward creates a deferred tax asset of approximately $4,400; however, the Association has established a valuation allowance against the deferred tax assets, resulting in no effect on the accompanying financial statements.

Note 9 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 10 SPECIAL ASSESSMENT

During the year ended August 31, 2010, the Board of Directors passed a special assessment of $12,000 per unit totaling $480,000 to be paid in full by April 1, 2010 to fix drainage issues behind the units, replace siding on the sides and rear of each building, replace loft windows, vent dryers to the outside, patch upper driveway and lot, and run cable to each unit.

Note 11 CERTIFICATES OF DEPOSIT

Certificates of deposit are carried at fair market value which is the same as cost. At August 31, 2010, the balance is as follows:

Institution	Maturity Date	Interest Rate	Carrying Value
Community Banks of Colorado	10/26/2010	0.80%	$ 250,630

For the year ended August 31, 2010, the Replacement Fund had interest income of $1,878.

SUPPLEMENTAL INFORMATION

EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE
CONDOMINIUM ASSOCIATION
Supplemental Information on Future Major Repairs and Replacements (Compiled)
For the Year Ended August 31, 2010

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.)

	2011	2012	2013	2014	2015
Rework sewer lines	$ 55,000	$ -	$ -	$ -	$ -
Replace concrete curb/gutter	9,200	-	-	-	-
Replace concrete garage aprons	43,700	-	-	-	-
Mud jack garage slabs	4,400	-	4,400	-	4,400
Repave upper and lower parking	132,300	-	-	-	-
Replace wall heaters	4,100	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 heathers	-	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
	$ 248,700	$ 297,000	$ 45,900	$ 54,700	$ 50,900

See accompanying independent auditors' report.