

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

**FINANCIAL STATEMENTS**

**AUGUST 31, 2012**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report .....	1
<b>Financial Statements</b>	
Balance Sheet.....	2
Statement of Revenues, Expenses and Changes in Fund Balances .....	3
Statement of Cash Flows .....	4
Notes to the Financial Statements .....	5
<b>Supplemental Information</b>	
Independent Auditors' Report on Supplemental Information .....	9
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

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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, 2012 and the related statements of revenues, expenses and changes in fund balances, 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, 2012 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  
February 26, 2013

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

Balance Sheet  
August 31, 2012

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 108,941	\$ 57,291	\$ 234,632	\$ 400,864
Assessments receivable	14,841	-	55,845	70,686
Due from other funds	-	6,384	73,526	79,910
Deposits	-	-	6,001	6,001
Prepaid expenses	3,142	-	-	3,142
<b>Total Current Assets</b>	<u>126,924</u>	<u>63,675</u>	<u>370,004</u>	<u>560,603</u>
<b>Property and Equipment</b>				
Furniture and equipment	25,789	-	-	25,789
Less accumulated depreciation	<u>(25,276)</u>	<u>-</u>	<u>-</u>	<u>(25,276)</u>
<b>Net Property &amp; Equipment</b>	<u>513</u>	<u>-</u>	<u>-</u>	<u>513</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 127,437</u></u>	<u><u>\$ 63,675</u></u>	<u><u>\$ 370,004</u></u>	<u><u>\$ 561,116</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 23,929	\$ -	\$ -	\$ 23,929
Prepaid assessments	1,000	-	-	1,000
Due to other funds	79,910	-	-	79,910
Security deposits	1,200	-	-	1,200
<b>Total Current Liabilities</b>	<u>106,039</u>	<u>-</u>	<u>-</u>	<u>106,039</u>
<b>Fund Balances</b>	<u>21,398</u>	<u>63,675</u>	<u>370,004</u>	<u>455,077</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 127,437</u></u>	<u><u>\$ 63,675</u></u>	<u><u>\$ 370,004</u></u>	<u><u>\$ 561,116</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, 2012

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>REVENUES</b>				
Assessment income	\$ 228,000	\$ 12,000	\$ -	\$ 240,000
Special assessments	-	-	500,000	500,000
Rental income	13,200	-	-	13,200
Interest income	-	30	505	535
Other income	658	-	-	658
Late fees	6,319	-	-	6,319
<b>TOTAL REVENUES</b>	<b>248,177</b>	<b>12,030</b>	<b>500,505</b>	<b>760,712</b>
<b>EXPENSES</b>				
Audit & tax return	3,110	-	-	3,110
Board of directors	1,056	-	-	1,056
Cable television	13,627	-	-	13,627
Chimney cleaning	2,344	-	-	2,344
Common area cleaning	10,021	-	-	10,021
Contract labor	31,753	-	-	31,753
Depreciation	205	-	-	205
Electricity	25,273	-	-	25,273
Fire protection	967	-	-	967
Hot tub maintenance & supplies	12,919	-	-	12,919
Insurance	19,844	-	-	19,844
Internet	2,726	-	-	2,726
Landscaping	2,744	-	-	2,744
Legal	977	-	-	977
Maintenance labor & supplies	13,827	-	-	13,827
Management fees	25,200	-	-	25,200
Miscellaneous expense	669	-	-	669
Postage & office supplies	188	-	-	188
Property taxes	493	-	-	493
Snow removal	33,656	-	-	33,656
Trash	4,350	-	-	4,350
Water & sanitation	34,584	-	-	34,584
Water damage	1,588	-	-	1,588
Capital repairs	-	5,617	382,991	388,608
<b>TOTAL EXPENSES</b>	<b>242,121</b>	<b>5,617</b>	<b>382,991</b>	<b>630,729</b>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>6,056</b>	<b>6,413</b>	<b>117,514</b>	<b>129,983</b>
<b>BEGINNING FUND BALANCES</b>	<b>1,365</b>	<b>60,525</b>	<b>263,204</b>	<b>325,094</b>
<b>FUND TRANSFERS</b>	<b>13,977</b>	<b>(3,263)</b>	<b>(10,714)</b>	<b>-</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 21,398</b>	<b>\$ 63,675</b>	<b>\$ 370,004</b>	<b>\$ 455,077</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, 2012

	Operating Fund	Capital Replacement Fund	Special Projects Fund	(Memo only) Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Excess of revenues over expenses	\$ 6,056	\$ 6,413	\$ 117,514	\$ 129,983
Adjustment to reconcile excess of revenues over expenses to cash from operating activities:				
Depreciation	205	-	-	205
Change in assessments receivable	(7,482)	-	(30,391)	(37,873)
Change in deposits	-	-	855	855
Change in prepaid expenses	(1,891)	-	-	(1,891)
Change in accounts payable	14,002	-	(4,497)	9,505
Change in due to/from other funds	(54,141)	(6,384)	60,525	-
Change in prepaid assessments	1,000	-	-	1,000
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(42,251)	29	144,006	101,784
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
	-	-	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Fund transfers	13,977	(3,263)	(10,714)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	13,977	(3,263)	(10,714)	-
NET INCREASE (DECREASE) IN CASH	(28,274)	(3,234)	133,292	101,784
CASH AT BEGINNING OF THE YEAR	137,215	60,525	101,340	299,080
CASH AT END OF THE YEAR	\$ 108,941	\$ 57,291	\$ 234,632	\$ 400,864
<b>Supplemental Information:</b>				
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, 2012

Note 1 NATURE OF ORGANIZATION

The Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association (the "Association") is a statutory condominium association organized as a non-profit corporation incorporated in the State of Colorado in March 1981. The Association is responsible for the operation and maintenance of the common property of the Eagle's Nest Townhouses, a 40-unit residential townhome complex in Mt. Crested Butte, Colorado. In addition, two small studio units are owned in common by the members and are rented to people working in the Mt. Crested Butte area.

Note 2 DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through February 26, 2013, 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 Capital Replacement Fund or Special Projects Fund generally may be made for designated purposes. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operation of the Association.

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

Special Projects Fund – This fund is used to accumulate financial resources designated for future special projects.

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, 2012

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.

There was no bad debt expense for the year ended August 31, 2012.

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, 2012 was \$205.

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, 2012, the Association paid Crested Butte Lodging & Property Management, Inc. \$25,200 in management fees and \$70,878 for maintenance, snow removal and other operations.

The Association owed \$4,956 to Crested Butte Lodging & Property Management, Inc. as of August 31, 2012.

See accompanying independent auditors' report.



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

Notes to the Financial Statements  
August 31, 2012

**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, 2012 the Association collected \$12,000 in Capital Replacement Fund dues and \$500,000 in special assessment dues for the Special Projects Fund. The Association expended \$388,608 from the Special Projects Fund, primarily for roof repairs, asphalt repaving, and overall renovation efforts. Accumulated funds, which aggregate \$234,632 in the Special Projects Fund and \$57,291 in the Replacement Fund at August 31, 2012, 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 Capital Replacement Fund based on estimates as determined by this study. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Capital Replacement Fund may not be adequate to meet future needs. If additional funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments or postpone replacements until funds are available. The effect on future assessments has not been determined at this time.

**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, 2012. Total rent paid by Crested Butte Lodging & Property Management, Inc. to the Association for the year ended August 31, 2012 was \$13,200.

**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. As of August 31, 2012, the Association's tax years for 2008, 2009 and 2010 are open to examination by taxing authorities.

See accompanying independent auditors' report.

**EAGLE'S NEST TOWNHOUSES OF MT. CRESTED BUTTE  
CONDOMINIUM ASSOCIATION**  
Notes to the Financial Statements  
August 31, 2012

Note 7 INCOME TAXES (Continued)

As of August 31, 2012, the Association has a federal net operating loss carry forward as follows:

August 31, 2025	\$ 14,103
August 31, 2026	5,467
August 31, 2029	8,886
August 31, 2032	105
	<u>\$ 28,561</u>

This carry forward creates a deferred tax asset of approximately \$4,300. 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 were divided into timeshare weeks which grant ownership rights for a certain time period to their owners. Each of these units was assessed the same dues as the 36 units which are not divided and each week was represented as a partial voting right in the Association. The extra operating costs specifically related to these units were borne by the weekly owners through assessments levied by their weekly owners association which was separate from the Eagle's Nest Townhouses of Mt. Crested Butte Condominium Association. None of their assessments or expenses were included in these financial statements.

During the year ended August 31, 2012 one of the four timeshare units sold. Subsequent to year end and before February 26, 2013, the audit report date, the remaining three units sold. As such, these units are no longer considered timeshare units.

Note 9 SPECIAL ASSESSMENT

During the year ended August 31, 2012, the Board of Directors passed a special assessment of \$12,500 per unit totaling \$500,000 to be paid in full by April 1, 2012 to help fund Phase III of the townhouse renovation effort. The total special assessment outstanding at August 31, 2012 is \$55,845 and is included in Assessments receivable in the Special Projects Fund.

See accompanying independent auditors' report.

SUPPLEMENTAL INFORMATION

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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, 2012, and our report thereon dated February 26, 2013, 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  
February 26, 2013

**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, 2012

	Unaudited Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Assessment income	\$ 240,000	\$ 240,000	\$ -
Special assessments	-	500,000	500,000
Rental income	14,400	13,200	(1,200)
Interest income	4	535	531
Other income	650	658	8
Late fees	4,200	6,319	2,119
<b>TOTAL REVENUES</b>	<u>259,254</u>	<u>760,712</u>	<u>501,458</u>
<b>EXPENSES</b>			
Audit & tax return	3,400	3,110	290
Bad debt	6,000	-	6,000
Board of directors	1,780	1,056	724
Cable television	13,424	13,627	(203)
Chimney cleaning	3,500	2,344	1,156
Common area cleaning	10,000	10,021	(21)
Contract labor	7,800	31,753	(23,953)
Depreciation	564	205	359
Electricity	20,717	25,273	(4,556)
Fire protection	500	967	(467)
Hot tub maintenance & supplies	14,600	12,919	1,681
Insurance	17,847	19,844	(1,997)
Internet	2,520	2,726	(206)
Landscaping	2,500	2,744	(244)
Legal	1,200	977	223
Maintenance labor & supplies	15,000	13,827	1,173
Management fees	25,200	25,200	-
Miscellaneous expense	474	669	(195)
Postage & office supplies	480	188	292
Property taxes	700	493	207
Snow removal	58,000	33,656	24,344
Trash	4,800	4,350	450
Water & sanitation	36,248	34,584	1,664
Water damage	-	1,588	(1,588)
Capital repairs	-	388,608	(388,608)
<b>TOTAL EXPENSES</b>	<u>247,254</u>	<u>630,729</u>	<u>(383,475)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ 12,000</u>	<u>\$ 129,983</u>	<u>\$ 117,983</u>

See accompanying independent auditors' report on supplemental information.

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

Supplemental Information on Future Major Repairs and Replacements (Compiled)  
August 31, 2012

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.)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
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	-
Replace garage doors	-	-	-
Replace balcony decks	-	-	-
Utility and meter covers	-	-	-
Replace two sauna heaters	-	-	-
Replace lower hot tub	-	-	-
Replace stucco with siding	-	-	-
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>\$ 45,900</u>	<u>\$ 54,700</u>	<u>\$ 50,900</u>

See accompanying independent auditors' report on supplemental information.

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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, 2012, and have issued our report thereon dated February 26, 2013. 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 September 6, 2012. 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, 2012. 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 \$57,291. The required reserve was determined based on a study made by the Association's management 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 on prior debt collections and the Association's 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 an allowance for bad debts should be recorded.

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 Capital Replacement Fund based on estimates as determined by this study. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Capital Replacement Fund may not be adequate to meet future needs. If additional funds are needed for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or postpone replacements until funds are available. The effect on future assessments has not been determined at this time.

#### *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.

#### *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 February 26, 2013.

#### *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.

Cash Disbursements

The President of the management company is a signer on the bank accounts and normally signs all checks for payment, including the check to the management company. In order to strengthen controls over cash disbursements, we suggest that a second signature be required on all checks paid to the management company or that all management company invoices be reviewed and approved by a Board Member prior to payment.

Controls over cash

During our audit testing procedures, we noted that the bank reconciliation function is being handled by the same person at the management company who prepares the checks. Because of the authority given by the Association to the management company for the performance of its duties and responsibilities, the Board of Directors needs to maintain an active role in monitoring the management company in order to meet its fiduciary responsibility of safeguarding the Association's assets. We recommend that a member of the Board periodically review an unopened bank statement and reconcile the cleared checks to the monthly cash disbursement journal. This will help minimize the lack of segregation of duties pertaining to check writing and the bank reconciliation process at the management company.

Due to Operating Fund

As of August 31, 2012, the Operating Fund owes the Capital Replacement Fund and the Special Projects Fund \$6,384 and \$73,526, respectively. We suggest the Association's management take steps to eliminate these interfund balances by transferring the cash prior to the following fiscal year-end.

Reserve Study

The last replacement fund study was prepared in 2010. We recommend an update by done every 3-5 years. The Board should consider updating the study within the next year to ensure that the replacement funding program is adequate to meet future needs.

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,

*McNurlin & Associates, P.C.*  
McNurlin & Associates, P.C.  
Lakewood, Colorado  
February 26, 2013