THE ENCLAVE ASSOCIATION, INC.

FINANCIAL STATEMENTS
(with supplementary information)

September 30, 2013

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REESE HENRY
& COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Enclave Association, Inc.
Snowmass Village, Colorado

We have audited the accompanying balance sheet of The Enclave Association, Inc., which comprise the balance sheet as of September 30, 2013, and the related statements of revenues, expenses, and changes in fund balance 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 The Enclave Association, Inc. as of September 30, 2013, 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.

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Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary 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.

Reese Henry & Company, Inc.

Certified Public Accountants
Aspen, Colorado
March 26, 2014

THE ENCLAVE ASSOCIATION, INC.

BALANCE SHEET

September 30, 2013

	Operating Fund	Replacement Fund	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 445,412	$ 412,440	$ 857,852
Accounts Receivable	50	-	50
Prepaid Expenses	8,539	-	8,539
Interfund Receivable (Payable)	(427,644)	427,644	-
TOTAL CURRENT ASSETS	**26,357**	**840,084**	**866,441**
PROPERTY			
Equipment and Furniture	63,439	-	63,439
Employee Housing Unit	96,823	-	96,823
	160,262	-	160,262
Less Accumulated Depreciation	(132,440)	-	(132,440)
TOTAL PROPERTY	**27,822**	**-**	**27,822**
TOTAL ASSETS	**$ 54,179**	**$ 840,084**	**$ 894,263**
LIABILITIES AND FUND BALANCE			
CURRENT LIABILITIES			
Accounts Payable	$ 32,638	$ -	$ 32,638
Accrued Expenses	10,292	-	10,292
Prepaid Assessments	323	-	323
TOTAL CURRENT LIABILITIES	**43,253**	**-**	**43,253**
FUND BALANCE			
Contributed Capital	6,000	-	6,000
Fund Balance	4,926	840,084	845,010
TOTAL FUND BALANCE	**10,926**	**840,084**	**851,010**
TOTAL LIABILITIES AND FUND BALANCE	**$ 54,179**	**$ 840,084**	**$ 894,263**

See accompanying notes and Independent Auditor's Report.

THE ENCLAVE ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE

For the Year Ended September 30, 2013

	Operating Fund	Replacement Fund	Total
REVENUES			
Assessments	$ 957,303	$ 95,348	$ 1,052,651
Exterior Renovation Assessment	-	3,900	3,900
Interest Income	213	268	481
Rental Income	14,400	5,665	20,065
TOTAL REVENUES	**971,916**	**105,181**	**1,077,097**
EXPENSES			
Special Projects	24,000	57,097	81,097
Repairs and Maintenance	212,660	-	212,660
General and Administrative	609,588	-	609,588
Utilities	117,257	-	117,257
Depreciation	5,875	-	5,875
TOTAL EXPENSES	**969,380**	**57,097**	**1,026,477**
EXCESS (DEFICIT) REVENUES OVER EXPENSES	**2,536**	**48,084**	**50,620**
FUND BALANCE, October 1, 2012	**8,390**	**792,000**	**800,390**
FUND BALANCE, September 30, 2013	**$ 10,926**	**$ 840,084**	**$ 851,010**

See accompanying notes and Independent Auditor's Report.

THE ENCLAVE ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2013

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (Deficit) of Revenues Over Expenses	$ 2,536	$ 48,084	$ 50,620
Adjustment to Reconcile Excess (Deficit) of Revenues Over Expenses to Net Cash Provided by (Used in) Operating Activities:			
Depreciation	5,875	-	5,875
(Increase) Decrease in:			
Accounts Receivable	(50)	-	(50)
Prepaid Expenses	231	-	231
Increase (Decrease) in:			
Due to Management Company	(7,320)	-	(7,320)
Accrued Expenses	7,900	-	7,900
Prepaid Assessments	323	-	323
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**9,495**	**48,084**	**57,579**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interfund Activity	427,404	(427,404)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**427,404**	**(427,404)**	**-**
NET INCREASE (DECREASE) IN CASH	**436,899**	**(379,320)**	**57,579**
CASH AND CASH EQUIVALENTS, October 1, 2012	**8,513**	**791,760**	**800,273**
CASH AND CASH EQUIVALENTS, September 30, 2013	**$ 445,412**	**$ 412,440**	**$ 857,852**

See accompanying notes and Independent Auditor's Report.

THE ENCLAVE ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2013

1. NATURE OF ORGANIZATION

The Enclave Association, Inc. was incorporated on December 11, 1979 under the laws of the State of Colorado as a not-for-profit corporation for the purpose of operating and maintaining the common elements of the condominium complex. The Enclave complex is located in the ski resort community of Snowmass Village, Colorado and consists of 40 separately owned condominium units and common areas. The primary use of the property is for owners or guests. Some owners participate in a rental program administrated by the Snowmass Lodging Company. **The rental program activity is not a part of these financial statements.**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING METHOD
The Association's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") that have been consistently applied in the preparation of the financial statements.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

FUND ACCOUNTING
The Association employs the fund method of accounting on the accrual basis to account for restrictions on the expenses resulting from actions of the Board of Directors or the Association voting membership.

These financial statements segregate the accounting for such funds as either operating or replacement. The disbursements from the operating fund are generally at the discretion of the Board of Directors or the site manager. The disbursements from the replacement fund may only be used according to the fund's purpose. See Note 6.

CASH AND CASH EQUIVALENTS
For purposes of the statement of cash flows, the Association considers money market funds and certificates of deposit with a maturity of three months or less at the time of purchase to be cash equivalents.

INTEREST INCOME
Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

INTERFUND RECEIVABLE/PAYABLE
As of September 30, 2013, the operating fund had borrowed $427,644 from the capital reserve fund for various expenses.

MEMBER ASSESSMENTS
Association members are subject to quarterly assessments to provide funds for the Association's operating expenses, special projects and major repairs and replacements. Assessments receivable at September 30, 2013 represent fees due from unit owners. Any excess assessments at year end are retained by the Association for use in the succeeding year. The Association's policy is to retain legal counsel and to place liens on the properties of unit owners whose assessments are delinquent, as determined by the board of managers. Interest is accrued on balances at rates determined by the board. It is the opinion of the board of managers that the Association will ultimately prevail against unit owners with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary. At September 30, 2013, the Association had no delinquent assessments.

PROPERTY AND DEPRECIATION
The employee housing unit, equipment, and furniture are recorded at cost and are being depreciated over the following lives using the straight-line and accelerated methods of depreciation.

Asset	Life in Years
Equipment and Furniture	5 - 7
Employee Housing Unit	31.5

Common real property acquired by the original homeowners from the developer is not capitalized on the Association's financial statements as it is owned by the individual owners in common and not the Association. Likewise, major replacements and improvements to the common real property are expensed to the replacement fund as incurred. The Association is responsible for preserving and maintaining common property and has the authority to dispose of capitalized assets it no longer needs.

COMPENSATED ABSENCES
A liability for accrued compensated absences is not included in these financial statements, as the Association has no employees.

3. INCOME TAX MATTERS

All corporations are required to file income tax returns regardless of tax liability. For the year ended September 30, 2013, the Association will be taxed as a regular corporation and will file Form 1120. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income at regular federal and state corporate tax rates. The Association's non-membership income includes employee unit rental income and interest earned on cash deposits net of related expenses. For the year ended September 30, 2013, the Association had a taxable loss of $2,463. A net operating loss carryover of $31,758 exists at September 30, 2013. The loss begins to expire in the fiscal year ending September 30, 2016. The Association has not recognized any deferred tax asset in relation to the non-membership loss carryover as the likelihood for the Association to use up the carryover is very remote.

FASC 740, *Income Taxes,* requires the use of a two-step approach for recognizing and measuring tax positions taken or expected to be taken in a tax return. First, a tax position should only be recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination by the taxing authority. Second, a tax position that meets the recognition threshold should be measured at the largest amount that has a greater than 50 percent likelihood of being sustained. The Association had no material unrecognized tax benefits for the year ended September 30, 2013.

As of September 30, 2013, the tax years that remain subject to examination by taxing authorities begin with 2009.

4. COMMITMENTS/RELATED PARTY ACTIVITY/ECONOMIC DEPENDENCY

On May 1, 1999, the Association entered into a management agreement with the Snowmass Lodging Company (SLC) whereby SLC acts as the exclusive managing agent of the common elements of the Association. The agreement was amended September 26, 2008 whereby the board approved an increase of the management fee to $106,108 per year. For the year ended September 30, 2013, the board also approved an additional $292,500 to be used toward an incentive rental program.

The Association has also entered into the following annual lease agreements with SLC:

A. Front office fee of $92,891 per year;
B. The Association pays SLC $1,930 per year as a direct office expense.
C. Van rental of $26,811 per year.

The Association paid Snowmass Lodging Company $633,352 for the above agreements and property maintenance for the year ended September 30, 2013.

SLC pays all of the Association's regular monthly expenses. Several times a month the Association transfers funds to SLC to cover these expenses. As of September 30, 2013 the Association owes $32,354 to SLC.

SLC is the Association's major vendor with 65% of the Association's expenses being paid to SLC. Because of this concentration, the loss of SLC as the property manager would require the Association to change its accounts payable processes.

5. CONCENTRATION OF RISK

The Association maintains deposits in local banks which may at times exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation (FDIC). To help manage credit risk, the Association participates in a Certificate of Deposit Account (CDARS), which is designed to allow FDIC insured depository institutions to accept deposits of more than $250,000 and obtain full coverage for the depositor by spreading the funds among as many separate FDIC insured institutions as necessary. Currently all of the Association's certificates of deposits are placed through such service.

The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. At September 30, 2013 the Association had an uninsured cash balance of $195,412.

6. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has a capital replacement funding program. As of September 30, 2013, the Association has restricted $840,084 of fund balance for the replacement program. Cash surpluses have been specifically identified and set aside to pay for future replacement projects. These cash balances do not represent 100% funding of the current or future estimated replacement requirement. Restricted cash is held in separate interest-bearing accounts and is generally not available for normal operating expenditures. It is the Association's policy to allocate interest earned on such funds to the capital reserve fund.

In December, 1988, an independent contractor conducted a study of the property to estimate the remaining useful lives and replacement costs of all components of the common property. This study is updated internally on an annual basis. The table included in the unaudited information on Future Major Repairs and Replacement is based on this study. The board is funding for these major repairs and replacements based on the property management company's recommendations and amounts previously accumulated in the restricted fund. A funding requirement of $176,432 has been included in the 2014 budget.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. 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, subject to membership approval, to increase regular assessments, pass special assessments, borrow money, or delay major repairs and replacements until funds are available.

7. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 25, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

THE ENCLAVE ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

September 30, 2013

An independent contractor conducted a study during December, 1988 to estimate the remaining useful lives and the replacement costs of the components of the common property. This study is updated annually. Replacement costs were based on the estimated costs to replace or repair the common property as of the study date, as calculated by the independent contractor. Estimated current replacement costs take into account actual inflation since that date.

The following information is based on the study and presents significant information about the components of common property:

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	2013 Funding Requirement	Replacement Fund Balance 9/30/2013
Component:				
Roof	4	$ 162,000	$ 16,880	$ 125,478
Garage Roofs	0	54,087	3,687	61,460
Siding	4	750,000	11,700	95,611
Boilers/Hot Water System	0-14	152,350	11,266	75,118
Windows	11	500,000	15,000	61,745
Exterior Lights	3-4	34,230	1,434	25,084
Entryway Enhancements	0	1,250	-	1,250
Exercise Equipment	2	6,200	100	1,795
Fire Safety System	3	40,000	2,400	34,296
Elevator Valves	2	150,000	17,000	129,000
Heated Drive	19	250,000	6,818	80,344
Pool/Spa Replacement	0-18	265,300	9,063	115,217
Crawl Space/Walkway Remediation	0-1	450,508	81,084	(30,672)
Arrival Center	0	35,000	-	64,358
TOTALS		**$ 2,850,925**	**$ 176,432**	**$ 840,084**

See accompanying notes and Independent Auditor's Report.