

Battlement Mesa Service Association

Financial Report

December 31, 2010

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
December 31, 2010**

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INDEPENDENT AUDITOR'S REPORT

**The Board of Directors
Battlement Mesa Service Association
Battlement Mesa, Colorado**

We have audited the accompanying balance sheets of the Battlement Mesa Service Association, (the "Association"), a Colorado non-profit corporation, as of December 31, 2010, 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 aspects, the financial position of the Battlement Mesa Service Association, Inc. as of December 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 10, Operating Fund – Comparison of Budgeted and Actual Expenses, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements; and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information on page 11, Schedule of Future Major Repairs and Replacements, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
May 2, 2011

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Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	259,274	388,284	647,558
Investments	99,902	474,210	574,112
Assessments receivable	85,731	-	85,731
Other receivables	2,248	-	2,248
Inventory	-	10,000	10,000
Land	100	-	100
Total Assets	<u>447,255</u>	<u>872,494</u>	<u>1,319,749</u>
Liabilities and Fund Equity:			
Liabilities:			
Accounts payable	12,426	-	12,426
Other current liabilities	22,585	-	22,585
Deferred assessment revenue	101,475	-	101,475
Total Liabilities	<u>136,486</u>	<u>-</u>	<u>136,486</u>
Fund Equity:			
Fund balances	310,769	872,494	1,183,263
Total Fund Equity	<u>310,769</u>	<u>872,494</u>	<u>1,183,263</u>
Total Liabilities and Fund Equity	<u>447,255</u>	<u>872,494</u>	<u>1,319,749</u>

The accompanying notes are an integral part of these financial statements.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2010

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Assessments	902,692	-	902,692
Cable television franchise fee	18,246	-	18,246
Interest	1,045	2,923	3,968
Other	99,310	-	99,310
Total Revenues	<u>1,021,293</u>	<u>2,923</u>	<u>1,024,216</u>
Expenses:			
Maintenance	283,709	-	283,709
Utilities	202,580	-	202,580
Sprinkler system	172,231	-	172,231
Management fees	59,460	-	59,460
Office expense	22,482	-	22,482
Insurance	11,792	-	11,792
Legal and accounting	38,915	-	38,915
Security	25,200	-	25,200
Income taxes	91	-	91
Bad debt	22,525	-	22,525
Miscellaneous	820	-	820
Replacement Fund expenses	-	4,000	4,000
Total Expenses	<u>839,805</u>	<u>4,000</u>	<u>843,805</u>
Excess of Revenues Over Expenses	181,488	(1,077)	180,411
Beginning Fund Balances	239,281	763,571	1,002,852
Transfer (to) from other fund	<u>(110,000)</u>	<u>110,000</u>	<u>-</u>
Ending Fund Balances	<u>310,769</u>	<u>872,494</u>	<u>1,183,263</u>

The accompanying notes are an integral part of these financial statements.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended December 31, 2010**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities:			
Cash received from owners for assessments	877,608	-	877,608
Cash received for interest	1,250	3,969	5,219
Cash received from other sources	108,611	-	108,611
Cash (paid) to vendors	(853,424)	-	(853,424)
Transfers (to) from other funds	(110,000)	110,000	-
Net Cash Provided (Used) by Operating Activities	<u>24,045</u>	<u>113,969</u>	<u>138,014</u>
Cash Flows From Investing Activities:			
Cash paid to purchase investments	(100,000)	(380,000)	(480,000)
Cash received from matured investments	100,000	285,000	385,000
Net Cash Provided (Used) By Investing Activities	<u>-</u>	<u>(95,000)</u>	<u>(95,000)</u>
Net Increase (Decrease) In Cash	24,045	18,969	43,014
Cash at Beginning of Period	235,229	369,315	604,544
Cash at End of Period	<u>259,274</u>	<u>388,284</u>	<u>647,558</u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Excess of revenues over expenses	<u>181,488</u>	<u>(1,077)</u>	<u>180,411</u>
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:			
Accrued interest on investments	205	1,046	1,251
Decrease (increase) in assessments receivable	(28,396)	-	(28,396)
Decrease (increase) in other accounts receivable	(2,076)	-	(2,076)
Decrease (increase) in inventory	-	4,000	4,000
Increase (decrease) in accounts payable	(12,200)	-	(12,200)
Increase (decrease) in deferred assessment revenue	3,969	-	3,969
Increase (decrease) in accrued expenses	(8,945)	-	(8,945)
Net change in interfund transfers	(110,000)	110,000	-
Total Adjustments	<u>(157,443)</u>	<u>115,046</u>	<u>(42,397)</u>
Net Cash Provided (Used) By Operating Activities	<u>24,045</u>	<u>113,969</u>	<u>138,014</u>

The accompanying notes are an integral part of these financial statements.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010

1. Organization

Battlement Mesa Service Association (the "Association") was incorporated in the State of Colorado in 1982 as a non-profit corporation. The Association was established to provide for the community, civic, and social welfare of the homeowners and to maintain the fences, pedestrian paths, landscaped common areas and street lighting. As of December 31, 2010, the Association consisted of two thousand six hundred thirty-three (2,633) properties located on three thousand, two hundred acres in Garfield County, Colorado.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. The common expenses of the Association are paid by the Association for the members of the Association. The Board of Directors estimates the expenses and the Association's members are assessed for their pro-rata share of the estimated expenses.

B. Fund Accounting

The Association uses the fund method of accounting, which requires that funds, such as operating funds and funds designated for future major repairs, replacements and additions be classified separately for accounting and reporting purposes.

Fund accounting is helpful in segregating funds having restrictions on their use. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors and the property manager. Disbursements from the Replacement Fund may be made only for designated purposes.

C. Recognition of Assets

The Association recognizes common real property to which it has title and that it can dispose of for cash, while retaining the proceeds thereto, as an asset on its financial statements. This asset is recorded at cost and is not depreciated.

D. Cash and Cash Equivalents

Cash and cash equivalents for the statement of cash flows consist of cash in bank, cash on hand, and investments with maturities of three months or less.

E. Investments

The Association has invested certain excess funds in certificates of deposit. Because these investments are intended to fund expenditures in the Operating and Replacement Funds and may provide a ready source of cash when so required, these investments are classified as trading for financial statement purposes. Accordingly, investments are reported on these financial statements at fair value, and all realized and unrealized gains and losses are included in current period earnings.

F. Interest Allocation

The Board's policy is to record interest earned in the fund that holds the underlying investment.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010
(Continued)**

2. Summary of Significant Accounting Policies (continued)

G. Accounts Receivable

Accounts receivable at the balance sheet date represent assessment fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 30 days or more delinquent.

The Association uses the allowance method for recognizing potential uncollectible delinquent accounts receivable. At December 31, 2010, the Association has not established an allowance for uncollectible owner's assessments receivable since all receivables were considered collectible.

H. Inventory

The value of inventory is stated at cost.

I. Deferred Assessment Revenues

Deferred assessment revenues consist of cash receipts collected in 2010 for 2011 assessments.

J. Common Assessments

Common assessments are the primary source of revenue for the Association. The Board, together with the Association's managing agent, prepares an annual budget to estimate the annual expenses of maintaining the Association's common elements.

On a quarterly basis, members of the Association are assessed for their share of these estimated expenses. Since the Association is designed only to operate as a conduit to collect assessments and pay operating expenses on behalf of members, any excess or deficiency of revenues over expenses is repaid to, or recovered from, the members in a subsequent year by reducing or increasing assessments, or, with the approval of the Board, transferred to the Replacement Fund.

K. Income Taxes

While the Association has been organized under Colorado non-profit statutes as a corporation without capital stock or shareholders, the Association is not a tax-exempt organization. Consequently, the Association is subject to Federal and state income taxes on net income derived from investments and other non-membership sources.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Subsequent Events

Management has evaluated subsequent events through May 2, 2011; the date that these financial statements were available to be issued.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010
(Continued)**

3. Investments

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Certificates of deposit:			
Maturing within one year, interest at .35% - .90% p.a.	\$ 99,902	379,630	479,532
Maturing within two years, interest at .40% p.a.	-	94,580	94,580
Total	<u>\$ 99,902</u>	<u>474,210</u>	<u>574,112</u>

4. Future Major Repairs and Replacement Reserve

The Association's governing documents allow for the accumulation of funds for future major repairs and replacements. Accumulated funds are held in a separate savings and investment account and generally not available for expenditures for normal operations.

The Association conducted a study in 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were made by the property manager and updated in 2010. The table included in the unaudited Supplementary Information -Schedule of Future Major Repairs and Replacements is based on the study.

In accordance with industry guidelines, it is the Association's primary duty to maintain and preserve the common property of the owners. Therefore, it is the Association's responsibility to determine a method for funding the costs of future major repairs and maintenance by assessing owners when funds are needed or by anticipating costs over extended time periods, assessing owners for the anticipated costs, and accumulating funds in reserves to meet the future funding requirements.

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 the Board of Director's approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The Replacement Fund had a balance of \$872,494 at December 31, 2010.

5. Homeowners' Fees and Economic Dependence

As of December 31, 2010, 7 unimproved units and 1,192 developed units of the 2,633 total assessment units were still owned by Battlement Mesa Partners (the Declarant). The Declarant pays one-half of the assessment per lot on unimproved lots and full assessment on improved lots. The Declarant paid \$403,744 in assessments for the year ended December 31, 2010. This amount represents approximately 56% of the total assessments charged by the Association. In accordance with the Declaration of Covenants, the Declarant is responsible to pay the Association the amount of any shortage caused by an excess of common expenses in excess of common assessments by its payment of its assessment at the 50% rate up to 100% of the assessment. There was no such shortage during the fiscal year ended December 31, 2010.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010
(Continued)**

6. Tamarisk Village Contingency Funds

The Association assesses an additional service assessment on residents of the Tamarisk Village area contained within the borders of the Association to pay for accounting fees and for irrigation, water and maintenance of front yard sprinkler systems required in that area. The residents of Tamarisk Village voted at an annual homeowners' meeting for that area to retain any excess funds collected for this purpose to be used as a contingency fund. The funds so designated can be used at the discretion of the Board of Directors to meet funding shortages for the irrigation, water and sprinkler system maintenance of Tamarisk Village. In the current year, assessments exceeded expenditures for common area landscaping by \$3,602. The net effect resulted in a reduction of a receivable from Tamarisk Village for previous years' expenditures in excess of assessments. As of December 31, 2010, the contingency fund was \$3,227. When the contingency fund has a balance, it is the policy of the Association to allocate interest earned on these funds to the Tamarisk Village contingency fund.

7. Management Contract

In 2009 the Association entered into a management agreement with the Battlement Mesa Metropolitan District ("BMMD") to manage the day-to-day operations of the Association under the direction of the Association's Board of Directors. The agreement commenced on January 1, 2010 and ended December 31, 2010. During 2010, the Association entered into another management agreement with BMMD, to extend management services from January 1, 2011 to December 31, 2011

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2010 are included in these financial statements as follows:

Maintenance	\$ 8,909
Irrigation water	150,817
Management and accounting	59,460
Office expense	6,079
Recycling	288
Street sweeping	15,000
Snow removal	45
Litter pick-up, bike path	<u>585</u>
Total	<u>\$ 241,183</u>

At December 31, 2010, the Association owed the managing agent \$1,330 for services provided.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2010
(Continued)

8. Designation of Replacement Fund

The Board has adopted a reserve policy, which designated the Association's Replacement Fund activities between a Bike Path Reserve, a Street Light Reserve, a Fencing Reserve, a Landscape Reserve, and a General Reserve.

During the year ended December 31, 2010, activity was recorded in these categories of the Association's Replacement Fund as follows:

	<u>Bike Path Fund</u>	<u>Street Light Fund</u>	<u>Fencing Fund</u>	<u>Landscape Fund</u>	<u>General Fund</u>	<u>Total</u>
Balances - Beginning of Year	\$ 317,663	(16,990)	367,313	25,599	69,986	763,571
Revenues:						
Interest	1,198	-	1,345	-	380	2,923
Expenses	-	(4,000)	-	-	-	(4,000)
Transfers:						
From Operating Fund	45,100	-	50,600	-	14,300	110,000
Balances - End of Year	<u>\$ 363,961</u>	<u>(20,990)</u>	<u>419,258</u>	<u>25,599</u>	<u>84,666</u>	<u>872,494</u>

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Operating Fund
Comparison of Budgeted and Actual Revenue and Expenses
For the Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Variance Positive (Negative)
Revenues:			
Assessments	906,807	902,692	(4,115)
Cable television franchise fee	25,000	18,246	(6,754)
Interest	-	1,045	1,045
Other	15,000	99,310	84,310
Total Revenues	<u>946,807</u>	<u>1,021,293</u>	<u>74,486</u>
Expenses:			
Maintenance	297,618	283,709	13,909
Utilities	207,130	202,580	4,550
Sprinkler system	170,019	172,231	(2,212)
Management fees	59,460	59,460	-
Office expense	29,920	22,482	7,438
Insurance	14,460	11,792	2,668
Legal and accounting	30,000	38,915	(8,915)
Security	25,200	25,200	-
Income taxes	3,000	91	2,909
Bad debt	-	22,525	(22,525)
Miscellaneous	-	820	(820)
Total Expenses	<u>836,807</u>	<u>839,805</u>	<u>(2,998)</u>

The accompanying notes are an integral part of these financial statements.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2010
(Unaudited)

The Association conducted a study in 2008, which was updated in 2010, to estimate the remaining useful lives and the replacement costs of the fencing components and hiking paths respectively. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study with a built-in inflation factor of 3% per year.

The balance of the Replacement Fund at December 31, 2010 has been designated by the Board for specific components of common property.

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

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Replacement Fund Balance 2010</u>
Bike paths	1 - 4	509,624	363,961
Fencing	2 - 10	727,286	419,258
Median landscaping	-	-	25,599
General	-	-	84,666
Street light	-	20,000	(20,990)
Totals		<u>1,256,910</u>	<u>872,494</u>

The accompanying notes are an integral part of these financial statements.