

Battlement Mesa Service Association

Financial Report

December 31, 2011



**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
December 31, 2011**

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McMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

CHAPEL SQUARE, BLDG C
245 CHAPEL PLACE, SUITE 300
P.O. Box 5850, AVON, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM
MAIN OFFICE: (970) 845-8800
FACSIMILE: (970) 845-8108
E-MAIL: MCMAHAN@MCMAHANCPA.COM

INDEPENDENT AUDITOR'S REPORT

The Board of Directors Battlement Mesa Service Association

We have audited the accompanying balance sheets of Battlement Mesa Service Association (the "Association"), a Colorado non-profit corporation, as of December 31, 2011, 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. The prior year summarized information has been derived from the Association's fiscal year 2010 financial statements and, in our report dated May 2, 2011; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 Battlement Mesa Service Association as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule on page 12, Operating Fund – Comparison of Budgeted and Actual Revenue and Expenses, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information, except for that portion marked "unaudited", on which we express no opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

Member: American Institute of Certified Public Accountants

D. JERRY McMAHAN, C.P.A.
PAUL J. BACKES, C.P.A.

DANIEL R. CUDAHY, C.P.A.
MICHAEL N. JENKINS, C.A., C.P.A.

AVON
(970) 845-8800

ASPEN
(970) 544-3996

FRISCO
(970) 668-3481

U.S. generally accepted accounting principles require that The Schedule of Future Major Repairs and Replacements on page 13 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 financial statements, and other knowledge we obtained during our audit of the 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.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
May 17, 2012

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2011
(With Comparative Totals For 2010)**

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Cash and cash equivalents	147,850	486,450	634,300	647,558
Investments	-	574,400	574,400	574,112
Assessments receivable	56,642	-	56,642	85,731
Other receivables	11,490	-	11,490	2,248
Inventory	-	4,000	4,000	10,000
Due (to) from other fund	(122,168)	122,168	-	-
Land	100	-	100	100
Total Assets	93,914	1,187,018	1,280,932	1,319,749
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	13,877	-	13,877	12,426
Other current liabilities	18,206	-	18,206	22,585
Deferred assessment revenue	56,831	-	56,831	101,475
Total Liabilities	88,914	-	88,914	136,486
Fund Equity:				
Fund balances	5,000	1,187,018	1,192,018	1,183,263
Total Fund Equity	5,000	1,187,018	1,192,018	1,183,263
Total Liabilities and Fund Equity	93,914	1,187,018	1,280,932	1,319,749

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, 2011
(With Comparative Totals For 2010)

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Assessments	307,455	586,987	894,442	902,692
Cable television franchise fee	20,636	-	20,636	18,246
Investment income	341	2,151	2,492	3,968
Other	120,568	-	120,568	99,310
Total Revenues	449,000	589,138	1,038,138	1,024,216
Expenses:				
Maintenance	338,004	-	338,004	283,709
Utilities	204,280	-	204,280	202,580
Sprinkler system	140,774	-	140,774	172,231
Management fees	59,460	-	59,460	59,460
Office expense	39,587	-	39,587	22,482
Insurance	12,016	-	12,016	11,792
Legal and accounting	69,959	-	69,959	38,915
Security	14,400	-	14,400	25,200
Income taxes	14,336	-	14,336	91
Bad debt	25,920	-	25,920	22,525
Miscellaneous	43	-	43	820
Replacement Fund expenses	-	110,604	110,604	4,000
Total Expenses	918,779	110,604	1,029,383	843,805
Excess (Deficiency) of Revenues Over Expenses	(469,779)	478,534	8,755	180,411
Beginning Fund Balances	310,769	872,494	1,183,263	1,002,852
Transfer (to) from other fund	164,010	(164,010)	-	-
Ending Fund Balances	5,000	1,187,018	1,192,018	1,183,263

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, 2011
(With Comparative Totals For 2010)

	2011			2010
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners for assessments	292,557	586,987	879,544	877,608
Cash received for interest	243	1,961	2,204	5,219
Cash received from other sources	125,335	-	125,335	108,611
Cash (paid) to vendors	(915,737)	(104,604)	(1,020,341)	(853,424)
Transfers (to) from other funds	286,178	(286,178)	-	-
Net Cash Provided (Used) by Operating Activities	<u>(211,424)</u>	<u>198,166</u>	<u>(13,258)</u>	<u>138,014</u>
Cash Flows From Investing Activities:				
Cash paid to purchase investments	-	(480,000)	(480,000)	(480,000)
Cash received from matured investments	100,000	380,000	480,000	385,000
Net Cash Provided (Used) By Investing Activities	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>(95,000)</u>
Net Increase (Decrease) In Cash	(111,424)	98,166	(13,258)	43,014
Cash at Beginning of Period	<u>259,274</u>	<u>388,284</u>	<u>647,558</u>	<u>604,544</u>
Cash at End of Period	<u><u>147,850</u></u>	<u><u>486,450</u></u>	<u><u>634,300</u></u>	<u><u>647,558</u></u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (Deficiency) of revenues over expenses	<u>(469,779)</u>	<u>478,534</u>	<u>8,755</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	(98)	(190)	(288)	1,251
Decrease (increase) in assessments receivable	29,089	-	29,089	(28,396)
Decrease (increase) in other accounts receivable	(9,242)	-	(9,242)	(2,076)
Decrease (increase) in inventory	-	6,000	6,000	4,000
Increase (decrease) in accounts payable	1,451	-	1,451	(12,200)
Increase (decrease) in deferred assessment revenue	(44,644)	-	(44,644)	3,969
Increase (decrease) in accrued expenses	(4,379)	-	(4,379)	(8,945)
Net change in interfund transfers	286,178	(286,178)	-	-
Total Adjustments	<u>258,355</u>	<u>(280,368)</u>	<u>(22,013)</u>	<u>(42,397)</u>
Net Cash Provided (Used) By Operating Activities	<u><u>(211,424)</u></u>	<u><u>198,166</u></u>	<u><u>(13,258)</u></u>	<u><u>138,014</u></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, 2011

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, 2011, 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.

Investment income is unrestricted unless the earnings are restricted, either as to purpose or time period, by the donor of the original contribution.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2011
(Continued)

2. Summary of Significant Accounting Policies (continued)

E. Investments (continued)

U.S. generally accepted accounting principles require financial assets be valued at "fair value", determined through application of a three-tiered hierarchy of input levels. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using level 3 inputs are based on the best information available in circumstances where markets are non-existent or illiquid.

F. Interest Allocation

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

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, 2011, 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 the current year for the subsequent year's 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.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2011
(Continued)

2. Summary of Significant Accounting Policies (continued)

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 17, 2012; the date that these financial statements were available to be issued.

N. Comparative Information

The financial statements include certain prior year comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2010, from which the comparative totals were derived.

3. Investments

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Certificates of deposit:			
Maturing within one year, interest at 0.35% - 0.60% p.a.	\$ -	574,400	574,400
Total	<u>\$ -</u>	<u>574,400</u>	<u>574,400</u>

The following schedule summarizes the investment income in the Statements of Revenues, Expenses and Changes in Fund Balances:

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Interest income	\$ 328	1,876	2,204
Net gains (loses)	13	275	288
Total	<u>\$ 341</u>	<u>2,151</u>	<u>2,492</u>

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2011
(Continued)**

3. Investments (continued)

The fair values of assets measured on a recurring basis at December 31, 2011 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets (Level 1)</u>
Certificates of deposit	\$574,400	574,400
Total	\$574,400	574,400

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 commissioned a study in 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were prepared by reserve study engineers, based upon bids received from similar projects, past expenditures on similar work and cost estimating guides. 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 \$1,187,018 at December 31, 2011.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2011
(Continued)

5. Homeowners' Fees and Economic Dependence

As of December 31, 2011, 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 \$401,154 in assessments for the year ended December 31, 2011. This amount represents approximately 45% 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 over 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, 2011.

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 \$10,693. The net effect resulted in an increase of an excess of the prior year's expenses in excess of assessments from Tamarisk Village. As of December 31, 2011, the contingency fund was \$13,920. 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 2010 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, 2011 and ended December 31, 2011. During 2011, the Association entered into another management agreement with BMMD, to extend management services from January 1, 2012 to December 31, 2014

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2011 are included in these financial statements as follows:

Maintenance	\$ 17,133
Irrigation water	108,980
Management and account	59,460
Office expense	6,203
Street sweeping	15,810
Litter pick-up, bike path	<u>1,637</u>
Total	<u><u>\$ 209,223</u></u>

At December 31, 2011, the Association owed the managing agent \$0 for services provided.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2011
(Continued)

8. Designation of Replacement Fund

At the beginning of the year the reserve policy designated the Association's Replacement Fund activities between Bike Path Reserve, a Street Light Reserve, a Fencing Reserve, a Landscape Reserve, and a General Reserve. During the year the Board adopted a new reserve policy, which designated the Association's Replacement Fund activities between a General Fund Reserve and a General Fund Capital Reserve.

During the year ended December 31, 2011, 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 Replacement</u>	<u>General Fund Capital</u>	<u>Total</u>
Balances - Beginning of Year	\$ 363,961	(20,990)	419,258	25,599	84,666	-	872,494
Revenues:							
Assessments	-	-	-	-	293,493	293,493	586,986
Interest	-	-	-	-	1,076	1,076	2,152
Expenses	-	-	-	-	(6,000)	(104,604)	(110,604)
Transfers:							
Inter-category	(363,961)	20,990	(419,258)	(25,599)	487,828	300,000	-
To Operating Fund	-	-	-	-	(82,005)	(82,005)	(164,010)
Balances - End of Year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>779,058</u>	<u>407,960</u>	<u>1,187,018</u>

9. Related Party

During 2011, the Association paid \$14,665 to Elks Peaks Consulting Group LTD for covenant compliance protection services. Elks Peaks Consulting is owned by a Board member of the Association. At December 31, 2011, the Association owed the Elks Peaks Consulting Group LTD \$0 for services provided.

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, 2011
(With Comparative Totals For the Year Ended 2010)

	2011		Variance Positive (Negative)	2010
	Budget (Unaudited)	Actual		Actual
Revenues:				
Assessments	316,200	307,455	(8,745)	902,692
Cable television franchise fee	16,800	20,636	3,836	18,246
Investment income	50	341	291	1,045
Other	111,000	120,568	9,568	99,310
Total Revenues	444,050	449,000	4,950	1,021,293
Expenses:				
Maintenance	339,260	338,004	1,256	283,709
Utilities	201,850	204,280	(2,430)	202,580
Sprinkler system	140,650	140,774	(124)	172,231
Management fees	59,500	59,460	40	59,460
Office expense	40,160	39,587	573	22,482
Insurance	12,100	12,016	84	11,792
Legal and accounting	70,100	69,959	141	38,915
Security	14,400	14,400	-	25,200
Income taxes	10,700	14,336	(3,636)	91
Bad debt	12,150	25,920	(13,770)	22,525
Miscellaneous	50	43	7	820
Total Expenses	900,920	918,779	(17,859)	839,805

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, 2011
(Unaudited)

The Association commissioned a study in 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were prepared by reserve study engineers, based upon bids received from similar projects, past expenditures on similar work and cost estimating guides.

The balance of the Replacement Fund has not 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 2011</u>
Entrance monuments	10	15,000	-
Street lights	3 - 22	967,500	-
Irrigation system	10	125,000	-
Pathways	1 - 25	587,328	-
Community signs	5	42,000	-
Privacy fence	1 - 10	735,992	-
Totals		<u><u>2,472,820</u></u>	<u><u>1,187,018</u></u>

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