



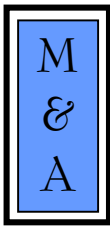
Financial Report

December 31, 2015

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
December 31, 2015**

Table of Contents

	Page
INDEPENDENT AUDITOR'S REPORT	1 - 2
Financial Statements:	
Balance Sheets	3
Statements of Revenues, Expenses and Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to the Financial Statements	6 - 11
Supplementary Information:	
Operating Fund - Comparison of Budgeted and Actual Revenue and Expenses	12
Schedule of Future Major Repairs and Replacements	13



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

**To the Board of Directors
Battlement Mesa Service Association
Battlement Mesa, Colorado**

Report on the Financial Statements

We have audited the accompanying financial statements of Battlement Mesa Service Association (the "Association"), a Colorado non-profit corporation, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements .

Management's Responsibilities

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 of material misstatement.

An audit includes 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 purposes 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member: American Institute of Certified Public Accountants

PAUL J. BACKES, CPA, CGMA
MICHAEL N. JENKINS, CA, CPA, CGMA
DANIEL R. CUDAHY, CPA, CGMA

AVON: (970) 845-8800
ASPEN: (970) 544-3996
FRISCO: (970) 668-3481

**INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Battlement Mesa Service Association
Battlement Mesa, Colorado**

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, 2015, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 auditing standards generally accepted in the United States of America. 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.

Disclaimer of Opinion on Required Supplementary Information

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

Report on Summarized Comparative Information

We have previously audited the Association's December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**McMahan and Associates, L.L.C.
June 23, 2016**

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2015
(With Comparative Totals For 2014)**

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Cash and cash equivalents	\$ 90,147	156,666	246,813	344,640
Investments	-	599,276	599,276	519,436
Assessments receivable, net	81,315	-	81,315	87,270
Other receivables	2,646	-	2,646	3,065
Prepaid expenses	4,000	-	4,000	-
Due (to) from other fund	(54,605)	54,605	-	-
Land	100	49,215	49,315	49,315
Total Assets	123,603	859,762	983,365	1,003,726
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	3,750	-	3,750	22,509
Other current liabilities	9,576	-	9,576	235
Deferred assessment revenue	109,575	-	109,575	100,945
Total Liabilities	122,901	-	122,901	123,689
Fund Equity:				
Fund balances	702	859,762	860,464	880,037
Total Fund Equity	702	859,762	860,464	880,037
Total Liabilities and Fund Equity	\$ 123,603	859,762	983,365	1,003,726

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, 2015
(With Comparative Totals For 2014)

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Assessments	\$ 826,913	74,320	901,233	901,560
Cable television franchise fee	10,611	-	10,611	12,659
Investment income	18	2,057	2,075	3,014
Other	69,530	-	69,530	101,484
Total Revenues	<u>907,072</u>	<u>76,377</u>	<u>983,449</u>	<u>1,018,717</u>
Expenses:				
Maintenance	342,535	-	342,535	336,252
Utilities	169,628	-	169,628	186,199
Sprinkler system	143,746	-	143,746	132,279
Management fees	93,000	-	93,000	90,000
Office expense	50,503	-	50,503	46,666
Insurance	13,298	-	13,298	12,995
Professional fees	37,626	-	37,626	38,719
Security	18,200	-	18,200	16,800
Income taxes	1,477	-	1,477	2,831
Bad debt	39,559	-	39,559	27,365
Miscellaneous	2,861	-	2,861	-
Replacement Fund expenses	-	90,589	90,589	144,562
Total Expenses	<u>912,433</u>	<u>90,589</u>	<u>1,003,022</u>	<u>1,034,668</u>
Excess (Deficiency) of Revenues Over Expenses	(5,361)	(14,212)	(19,573)	(15,951)
Beginning Fund Balances	<u>6,063</u>	<u>873,974</u>	<u>880,037</u>	<u>895,988</u>
Ending Fund Balances	<u>\$ 702</u>	<u>859,762</u>	<u>860,464</u>	<u>880,037</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, 2015
(With Comparative Totals For 2014)

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners for assessments	\$ 806,528	74,320	880,848	920,536
Cash received for interest	18	2,217	2,235	2,648
Cash received from other sources	80,744	-	80,744	114,581
Cash (paid) to vendors	(884,868)	(94,889)	(979,757)	(1,034,662)
Income taxes paid	(1,897)	-	(1,897)	(2,000)
Transfers (to) from other funds	54,605	(54,605)	-	-
Net Cash Provided (Used) by Operating Activities	55,130	(72,957)	(17,827)	1,103
Cash Flows From Investing Activities:				
Cash paid to purchase investments	-	(600,000)	(600,000)	(520,000)
Cash received from matured investments	-	520,000	520,000	635,000
Net Cash Provided (Used) By Investing Activities	-	(80,000)	(80,000)	115,000
Net Increase (Decrease) In Cash	55,130	(152,957)	(97,827)	116,103
Cash at Beginning of Period	35,017	309,623	344,640	228,537
Cash at End of Period	90,147	156,666	246,813	344,640
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (Deficiency) of revenues over expenses	(5,361)	(14,212)	(19,573)	(15,951)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Unrealized gain (loss) on investments	-	160	160	(366)
Decrease (increase) in assessments receivable, net	5,955	-	5,955	(23,768)
Decrease (increase) in other accounts receivable	417	-	417	1,035
Decrease (increase) in prepaid expenses	(4,000)	-	(4,000)	-
Increase (decrease) in accounts payable	(14,457)	(4,300)	(18,757)	11,993
Increase (decrease) in deferred assessment revenue	8,630	-	8,630	27,925
Increase (decrease) in accrued expenses	9,341	-	9,341	235
Net change in interfund transfers	54,605	(54,605)	-	-
Total Adjustments	60,491	(58,745)	1,746	17,054
Net Cash Provided (Used) By Operating Activities	\$ 55,130	(72,957)	(17,827)	1,103

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, 2015

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, 2015, 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, 2015
(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 in excess of \$500.

The Association uses the allowance method for recognizing potential uncollectible delinquent accounts receivable. At December 31, 2015, the Association has established an allowance for uncollectible owner's assessments receivable of \$34,970.

H. Deferred Assessment Revenues

Deferred assessment revenues consist of cash receipts collected in the current year for the subsequent year's assessments.

I. 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, 2015
(Continued)**

2. Summary of Significant Accounting Policies (continued)

J. 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.

The income tax returns of the Association are subject to examination by the Internal Revenue Service and the Colorado Department of Revenue. The Association's returns are no longer subject to examination for tax years prior to 2012 by the Internal Revenue Service and for tax years prior to 2011 by the Colorado Department of Revenue.

K. 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.

L. Subsequent Events

Management has evaluated subsequent events through June 23, 2016; the date that these financial statements were available to be issued.

M. 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, 2014, 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 0.40% - 0.65% p.a.	\$ -	599,276	599,276
Total	<u>\$ -</u>	<u>599,276</u>	<u>599,276</u>

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2015
(Continued)**

3. Investments (continued)

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

	Operating Fund	Replacement Fund	Total
Interest income	\$ 18	2,529	2,547
Net gains (loses)	-	(472)	(472)
Total	\$ 18	2,057	2,075

The fair values of assets measured on a recurring basis at December 31, 2015 are as follows:

	Fair Value	Quoted Prices in Active Markets (Level 1)
Certificates of deposit	\$ 599,276	599,276
Total	\$ 599,276	599,276

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. In 2012, the Board formed a committee that adjusted the reserve study estimates established by the engineers to correspond with the Association's estimates. The table included in the unaudited Supplementary Information - Schedule of Future Major Repairs and Replacements is based on the study and subsequent Board adjustments.

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 \$859,762 at December 31, 2015.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2015
(Continued)**

5. Homeowners' Fees and Economic Dependence

As of December 31, 2015, 7 unimproved units and 1,192 developed units of the 2,425.5 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, 2015. This amount represents approximately 53% 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.

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 \$5,289. The net effect resulted in an increase of an excess of the prior year's assessments in excess of expenses from Tamarisk Village. As of December 31, 2015, the contingency fund balance had cumulative assessments in excess of expenditures of \$6,510. When the contingency fund balance has cumulative assessments in excess of expenditures, it is the policy of the Association to allocate interest earned on these funds to the Tamarisk Village contingency fund.

7. Management Contract

In 2015 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, 2015 and expires December 31, 2017.

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2015 are included in these financial statements as follows:

Maintenance	\$ 14,859
Irrigation water	130,815
Management and accounting	93,259
Office expense	6,831
Street sweeping	<u>15,000</u>
Total	<u><u>\$ 260,764</u></u>

As of December 31, 2015, the Association owed \$0 to BMMD.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2015
(Continued)**

8. Designation of Replacement Fund

The Association's Replacement Fund activities are designated between a General Fund Reserve and a General Fund Capital Reserve.

During the year ended December 31, 2015, activity was recorded in these categories of the Association's Replacement Fund as follows:

	<u>General Fund Replacement</u>	<u>General Fund Capital</u>	<u>Total</u>
Balances - Beginning of Year	\$ 451,021	422,953	873,974
Revenues:			
Assessments	59,456	14,864	74,320
Interest	1,646	411	2,057
Expenses	<u>(48,955)</u>	<u>(41,634)</u>	<u>(90,589)</u>
Balances - End of Year	<u>\$ 463,168</u>	<u>396,594</u>	<u>859,762</u>

9. Related Parties

During 2015, the Association paid \$31,770 to Elks Peaks Consulting Group LTD for covenant compliance protection services, newsletters, and website maintenance. Elks Peaks Consulting is owned by a Board member of the Association, whose term expired February 15, 2015,. At December 31, 2015, the Association had paid all amounts due to Elks Peaks Consulting Group LTD.

The Association also paid \$15,450 to Mountain Lawn LLC for weed spraying services during 2015. A portion of Mountain Lawn LLC is owned by a Board member of the Association. At December 31, 2015, the Association had paid all amounts due to Mountain Lawn LLC.

Baker & Associates Landscape Management, LLC, which is owned by a Board member, performs landscape maintenance and sprinkler maintenance to the Association. The total amount paid to Baker & Associates in 2015 was \$288,513, and at December 31, 2015, the Association owed \$3,750 to Baker & Associates Landscape Management, LLC.

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, 2015
(With Comparative Totals For the Year Ended 2014)

	2015			2014
	Budget (Unaudited)	Actual	Variance Positive (Negative)	Actual
Revenues:				
Assessments	\$ 833,980	826,913	(7,067)	805,850
Cable television franchise fee	8,300	10,611	2,311	12,659
Investment income	20	18	(2)	22
Other	70,400	69,530	(870)	101,484
Total Revenues	912,700	907,072	(5,628)	920,015
Expenses:				
Maintenance	345,900	342,535	3,365	336,252
Utilities	170,600	169,628	972	186,199
Sprinkler system	144,700	143,746	954	132,279
Management fees	93,000	93,000	-	90,000
Office expense	50,900	50,503	397	46,666
Insurance	13,600	13,298	302	12,995
Professional fees	37,200	37,626	(426)	38,719
Security	16,800	18,200	(1,400)	16,800
Income taxes	2,000	1,477	523	2,831
Bad debt	30,000	39,559	(9,559)	27,365
Miscellaneous	3,000	2,861	139	-
Total Expenses	\$ 907,700	912,433	(4,733)	890,106

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, 2015
(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. In 2012, the Board formed a committee and adjusted the reserve study estimates established by the engineers to correspond with the Association's estimates.

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 2015</u>
Median improvements	0-4	\$ 120,000	-
Fences	0-15	271,000	-
Trails	0-15	40,000	-
Other improvements	0-2	180,000	-
Totals		<u>\$ 611,000</u>	<u>859,762</u>

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