

**Battlement Mesa Service Association  
(A Colorado Non-Profit Corporation)  
Balance Sheets  
December 31, 2018  
(With Comparative Totals For 2017)**

	<u>2018</u>			<u>2017</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 111,817	93,960	205,777	320,331
Investments	-	388,917	388,917	500,030
Assessments receivable, net	63,415	-	63,415	52,213
Other receivables	3,406	-	3,406	2,697
Inventory	-	38,000	38,000	-
Due (to) from other fund	(23,269)	23,269	-	-
Land	100	49,215	49,315	49,315
<b>Total Assets</b>	<u>155,469</u>	<u>593,361</u>	<u>748,830</u>	<u>924,586</u>
<b>Liabilities and Fund Equity:</b>				
<b>Liabilities:</b>				
Accounts payable	40,004	-	40,004	161,886
Other current liabilities	21,520	-	21,520	3,740
Deferred assessment revenue	98,033	-	98,033	113,527
<b>Total Liabilities</b>	<u>159,557</u>	<u>-</u>	<u>159,557</u>	<u>279,153</u>
<b>Fund Equity:</b>				
Fund balances (deficit)	(4,088)	593,361	589,273	645,433
<b>Total Fund Equity</b>	<u>(4,088)</u>	<u>593,361</u>	<u>589,273</u>	<u>645,433</u>
<b>Total Liabilities and Fund Equity</b>	<u>\$ 155,469</u>	<u>593,361</u>	<u>748,830</u>	<u>924,586</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, 2018**  
**(With Comparative Totals For 2017)**

	2018			2017
	Operating Fund	Replacement Fund	Total	Total
<b>Revenues:</b>				
Assessments	\$ 859,508	52,540	912,048	899,317
Cable television franchise fee	7,802	-	7,802	8,203
Investment income	27	8,665	8,692	5,098
Other	46,116	-	46,116	90,800
<b>Total Revenues</b>	<u>913,453</u>	<u>61,205</u>	<u>974,658</u>	<u>1,003,418</u>
<b>Expenses:</b>				
Maintenance	324,486	-	324,486	350,352
Utilities	180,355	-	180,355	170,157
Sprinkler system	182,425	-	182,425	172,370
Management fees	110,008	-	110,008	100,004
Office expense	34,610	-	34,610	35,493
Insurance	16,748	-	16,748	12,951
Professional fees	48,046	-	48,046	41,655
Security	20,020	-	20,020	17,969
Income taxes	2,539	-	2,539	1,400
Bad debt	7,097	-	7,097	34,853
Miscellaneous	-	-	-	188
Replacement Fund expenses	-	104,484	104,484	265,021
<b>Total Expenses</b>	<u>926,334</u>	<u>104,484</u>	<u>1,030,818</u>	<u>1,202,413</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(12,881)	(43,279)	(56,160)	(198,995)
<b>Fund Balances - Beginning of Year</b>	<u>8,793</u>	<u>636,640</u>	<u>645,433</u>	<u>844,428</u>
<b>Fund Balances (Deficit) - End of Year</b>	<u>\$ (4,088)</u>	<u>593,361</u>	<u>589,273</u>	<u>645,433</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, 2018**  
**(With Comparative Totals For 2017)**

	2018			2017
	Operating Fund	Replacement Fund	Total	Total
<b>Cash Flows From Operating Activities:</b>				
Cash received from owners for assessments	\$ 862,645	52,540	915,185	870,933
Cash received for interest	27	8,778	8,805	4,867
Cash received from other sources	53,209	-	53,209	98,542
Cash (paid) to vendors	(978,013)	(221,990)	(1,200,003)	(1,053,411)
Income taxes paid	(2,750)	-	(2,750)	(1,400)
Transfers (to) from other funds	(945)	945	-	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(65,827)</u>	<u>(159,727)</u>	<u>(225,554)</u>	<u>(80,469)</u>
<b>Cash Flows From Investing Activities:</b>				
Cash paid to purchase investments	-	(389,000)	(389,000)	(600,000)
Cash received from matured investments	-	500,000	500,000	700,000
<b>Net Cash Provided (Used) By Investing Activities</b>	<u>-</u>	<u>111,000</u>	<u>111,000</u>	<u>100,000</u>
<b>Net Increase (Decrease) In Cash</b>	(65,827)	(48,727)	(114,554)	19,531
<b>Cash at Beginning of Period</b>	177,644	142,687	320,331	300,800
<b>Cash at End of Period</b>	<u>111,817</u>	<u>93,960</u>	<u>205,777</u>	<u>320,331</u>
<b>Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:</b>				
Excess (Deficiency) of revenues over expenses	<u>(12,881)</u>	<u>(43,279)</u>	<u>(56,160)</u>	<u>(198,995)</u>
<b>Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:</b>				
Unrealized gain (loss) on investments	-	113	113	(231)
Decrease (increase) in assessments receivable, net	(11,202)	-	(11,202)	1,554
Decrease (increase) in other accounts receivable	(709)	-	(709)	(461)
Decrease (increase) in prepaid expenses	-	-	-	1,000
Decrease (increase) in inventory	-	(38,000)	(38,000)	-
Increase (decrease) in accounts payable	(42,376)	(79,506)	(121,882)	108,009
Increase (decrease) in deferred assessment revenue	(15,494)	-	(15,494)	4,915
Increase (decrease) in accrued expenses	17,780	-	17,780	3,740
Net change in interfund balances	(945)	945	-	-
<b>Total Adjustments</b>	<u>(52,946)</u>	<u>(116,448)</u>	<u>(169,394)</u>	<u>118,526</u>
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>\$ (65,827)</u>	<u>(159,727)</u>	<u>(225,554)</u>	<u>(80,469)</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, 2018**

**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, 2018, the Association consisted of two thousand three hundred sixty-six (2,366) properties located on approximately one thousand, six 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, 2018  
(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, 2018, the Association has established an allowance for uncollectible owner's assessments receivable of \$33,385.

**H. Inventory**

Inventory represents street light poles, which are replaced as necessary throughout Battlement Mesa. The value of all 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, 2018  
(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.

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 2015 by the Internal Revenue Service and for tax years prior to 2014 by the Colorado Department of Revenue.

**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 the date of the auditor's report.

**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, 2017, from which the comparative totals were derived.

**3. Investments**

	Operating Fund	Replacement Fund	Total
Certificates of deposit:			
Maturing within one year, interest at 2.00% - 2.45% p.a.	\$ -	388,917	388,917
<b>Total</b>	<b>\$ -</b>	<b>388,917</b>	<b>388,917</b>

**Battlement Mesa Service Association  
(A Colorado Non-Profit Corporation)  
Notes to the Financial Statements  
December 31, 2018  
(Continued)**

**3. Investments (continued)**

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

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
Interest income	\$ 27	8,778	8,805
Net gains (loses)	-	(113)	(113)
<b>Total</b>	<b>\$ 27</b>	<b>8,665</b>	<b>8,692</b>

The fair values of assets measured on a recurring basis at December 31, 2018 are as follows:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets (Level 1)</b>
Certificates of deposit	\$ 388,917	388,917
<b>Total</b>	<b>\$ 388,917</b>	<b>388,917</b>

**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 \$593,361 at December 31, 2018.

**Battlement Mesa Service Association  
(A Colorado Non-Profit Corporation)  
Notes to the Financial Statements  
December 31, 2018  
(Continued)**

**5. Homeowners' Fees and Economic Dependence**

As of December 31, 2018, 2 unimproved units and 123 developed units of the 2,403 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 \$35,650 in assessments for the year ended December 31, 2018. This amount represents approximately 4% 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.

In addition, during 2018, 5 members of the Association owned 313.5, 284, 169, 211, and 216 assessment units; paid \$92,796, \$84,064, \$50,024, \$62,456, and \$63,936, respectively, in assessments for the year ended December 31, 2018; and which represented 10%, 9%, 5%, 7%, and 7%, respectively, of the annual total assessments charged by the Association.

**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, expenses exceeded assessments by \$8,890. The net effect resulted in a decrease of an excess of the prior year's assessments in excess of expenses from Tamarisk Village. As of December 31, 2018, the contingency fund balance had cumulative expenditures in excess of assessments of \$985.

**7. Management Contract**

In December 2017, 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, 2018 and expired December 31, 2018. In December 2018, the Association entered into another management agreement with BMMD to commence on January 1, 2019 and end on December 31, 2019.

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2018 are included in these financial statements as follows:

Maintenance	\$ 8,598
Irrigation water	163,001
Management and accounting	110,008
Office expense	6,444
Street sweeping	15,000
Covenant enforcement	20,020
Replacement expenses	<u>729</u>
<b>Total</b>	<b><u>\$ 323,800</u></b>

As of December 31, 2018, the Association owed \$12,010 to BMMD.



**Battlement Mesa Service Association  
(A Colorado Non-Profit Corporation)  
Notes to the Financial Statements  
December 31, 2018  
(Continued)**

**8. Designation of Replacement Fund**

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

During the year ended December 31, 2018, 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>
<b>Balances - Beginning of Year</b>	\$ 513,188	123,452	636,640
Revenues:			
Assessments	42,032	10,508	52,540
Interest	7,022	1,756	8,778
Gain/(loss) on investments	(90)	(23)	(113)
Expenses	<u>(67,938)</u>	<u>(36,546)</u>	<u>(104,484)</u>
<b>Balances - End of Year</b>	<u>\$ 494,214</u>	<u>99,147</u>	<u>593,361</u>

**9. Related Parties**

**A. Mountain Lawn LLC**

The Association incurred \$15,000 to Mountain Lawn LLC for weed management services during 2018. A portion of Mountain Lawn LLC is owned by a Board member of the Association. At December 31, 2018, the Association owed \$5,356 to Mountain Lawn LLC.

**B. Parkway Services**

The Association incurred \$13,980 to Parkway Services in accordance with a signed contract for street litter pickup services during 2018. Parkway Services is owned by a family member of the Association's accounting manager.

**10. Deficit Fund Balance**

At December 31, 2018, the Association had a deficit fund balance of \$4,088 in Operating Fund.

**Battlement Mesa Service Association**  
**(A Colorado Non-Profit Corporation)**  
**Schedule of Future Major Repairs and Replacements**  
**December 31, 2018**  
**(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 2018</u>
Median improvements	4	\$ 50,000	-
Fences	1 - 12	225,000	-
Trails	1 - 12	105,000	-
Other improvements	1 - 10	215,000	-
<b>Totals</b>		<b>\$ 595,000</b>	<b>593,361</b>

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