



Financial Report

December 31, 2012

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
December 31, 2012**

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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, 2012, 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. The prior year summarized information has been derived from the Association's fiscal year 2011 financial statements and, in our report dated May 17, 2012, we expressed an unqualified opinion on those 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 on 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..

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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, 2012, 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.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
April 25, 2013

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2012
(With Comparative Totals For 2011)

	<u>2012</u>			<u>2011</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total (Restated)</u>
Assets:				
Cash and cash equivalents	\$ 196,514	332,784	529,298	634,300
Investments	-	549,077	549,077	574,400
Assessments receivable	94,119	-	94,119	70,109
Other receivables	3,887	-	3,887	11,490
Inventory	-	-	-	4,000
Due (to) from other fund	(201,566)	201,566	-	-
Land	100	49,215	49,315	100
Total Assets	<u>93,054</u>	<u>1,132,642</u>	<u>1,225,696</u>	<u>1,294,399</u>
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	11,191	-	11,191	13,877
Other current liabilities	1,800	-	1,800	18,206
Deferred assessment revenue	72,563	-	72,563	56,831
Total Liabilities	<u>85,554</u>	<u>-</u>	<u>85,554</u>	<u>88,914</u>
Fund Equity:				
Fund balances	7,500	1,132,642	1,140,142	1,205,485
Total Fund Equity	<u>7,500</u>	<u>1,132,642</u>	<u>1,140,142</u>	<u>1,205,485</u>
Total Liabilities and Fund Equity	<u>\$ 93,054</u>	<u>1,132,642</u>	<u>1,225,696</u>	<u>1,294,399</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, 2012
(With Comparative Totals For 2011)

	<u>2012</u>			<u>2011</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total (Restated)</u>
Revenues:				
Assessments	\$ 788,350	117,398	905,748	894,442
Cable television franchise fee	15,763	-	15,763	20,636
Investment income	24	2,439	2,463	2,492
Other	90,752	-	90,752	120,568
Total Revenues	<u>894,889</u>	<u>119,837</u>	<u>1,014,726</u>	<u>1,038,138</u>
Expenses:				
Maintenance	341,710	-	341,710	338,004
Utilities	206,124	-	206,124	204,280
Sprinkler system	156,434	-	156,434	140,774
Management fees	72,000	-	72,000	59,460
Office expense	34,195	-	34,195	39,587
Insurance	13,447	-	13,447	12,016
Legal and accounting	51,246	-	51,246	69,959
Security	16,800	-	16,800	14,400
Income taxes	5,684	-	5,684	14,336
Bad debt	8,216	-	8,216	25,920
Miscellaneous	-	-	-	43
Replacement Fund expenses	-	174,213	174,213	110,604
Total Expenses	<u>905,856</u>	<u>174,213</u>	<u>1,080,069</u>	<u>1,029,383</u>
Excess (Deficiency) of Revenues Over Expenses	(10,967)	(54,376)	(65,343)	8,755
Beginning Fund Balances (as restated)	<u>18,467</u>	<u>1,187,018</u>	<u>1,205,485</u>	<u>1,196,730</u>
Ending Fund Balances	<u>\$ 7,500</u>	<u>1,132,642</u>	<u>1,140,142</u>	<u>1,205,485</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, 2012
(With Comparative Totals For 2011)

	2012			2011
	Operating Fund	Replacement Fund	Total	Total (Restated)
Cash Flows From Operating Activities:				
Cash received from owners for assessments	\$ 780,071	117,398	897,469	879,544
Cash received for interest	24	2,762	2,786	2,204
Cash received from other sources	97,712	-	97,712	125,335
Cash (paid) to vendors	(908,541)	(170,213)	(1,078,754)	(1,020,341)
Transfers (to) from other funds	79,398	(79,398)	-	-
Net Cash Provided (Used) by Operating Activities	<u>48,664</u>	<u>(129,451)</u>	<u>(80,787)</u>	<u>(13,258)</u>
Cash Flows From Investing Activities:				
Cash paid to purchase fixed assets	-	(49,215)	(49,215)	-
Cash paid to purchase investments	-	(550,000)	(550,000)	(480,000)
Cash received from matured investments	-	575,000	575,000	480,000
Net Cash Provided (Used) By Investing Activities	<u>-</u>	<u>(24,215)</u>	<u>(24,215)</u>	<u>-</u>
Net Increase (Decrease) In Cash	48,664	(153,666)	(105,002)	(13,258)
Cash at Beginning of Period	147,850	486,450	634,300	647,558
Cash at End of Period	<u>196,514</u>	<u>332,784</u>	<u>529,298</u>	<u>634,300</u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (Deficiency) of revenues over expenses	<u>(10,967)</u>	<u>(54,376)</u>	<u>(65,343)</u>	<u>8,755</u>
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Accrued interest on investments	-	323	323	(288)
Decrease (increase) in assessments receivable	(24,010)	-	(24,010)	29,089
Decrease (increase) in other accounts receivable	7,603	-	7,603	(9,242)
Decrease (increase) in inventory	-	4,000	4,000	6,000
Increase (decrease) in accounts payable	(2,686)	-	(2,686)	1,451
Increase (decrease) in deferred assessment revenue	15,732	-	15,732	(44,644)
Increase (decrease) in accrued expenses	(16,406)	-	(16,406)	(4,379)
Net change in interfund transfers	79,398	(79,398)	-	-
Total Adjustments	<u>59,631</u>	<u>(75,075)</u>	<u>(15,444)</u>	<u>(22,013)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ 48,664</u>	<u>(129,451)</u>	<u>(80,787)</u>	<u>(13,258)</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, 2012**

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, 2012, 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, 2012
(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, 2012, the Association has not established an allowance for uncollectible owner's assessments receivable since all receivables were considered collectible.

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, 2012
(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 Federal income tax returns of the Association are subject to examination by the Internal Revenue Service and Colorado Department of Revenue. The Company is no longer subject to examination for years prior to 2009.

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 April 25, 2013; 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, 2011, 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 0.30% - 0.60% p.a.	\$ -	334,639	334,639
Maturing within two years, interest at 0.55% - 0.60% p.a.	-	214,438	214,438
Total	<u>\$ -</u>	<u>549,077</u>	<u>549,077</u>

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2012
(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	\$ 24	3,073	3,097
Net gains (loses)	-	(634)	(634)
Total	\$ 24	2,439	2,463

The fair values of assets measured on a recurring basis at December 31, 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets (Level 1)
Certificates of deposit	\$ 549,077	549,077
Total	\$ 549,077	549,077

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 \$1,132,642 at December 31, 2012.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2012
(Continued)

5. Homeowners' Fees and Economic Dependence

As of December 31, 2012, 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, 2012. This amount represents approximately 44% 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, 2012.

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, expenditures exceeded assessments for common area landscaping by \$ 2,312 . The net effect resulted in a decrease of an excess of the prior year's assessments in excess of expenditures from Tamarisk Village. As of December 31, 2012, the contingency fund balance had cumulative expenditures in excess of assessments of \$1,397. 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 2011 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, 2012 and expires December 31, 2014

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2012 are included in these financial statements as follows:

Maintenance	\$	9,862
Irrigation water		143,108
Management and accounting		72,000
Office expense		6,370
Street sweeping		15,000
Total	\$	<u>246,340</u>

As of December 31, 2012, the Association had paid all amounts due to the managing agent.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2012
(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, 2012, activity was recorded in these categories of the Association's Replacement Fund as follows:

	General Fund Replacement	General Fund Capital	Total
Balances - Beginning of Year	\$ 779,058	407,960	1,187,018
Revenues:			
Assessments	117,398	-	117,398
Interest	2,439	-	2,439
Expenses	(161,215)	(12,998)	(174,213)
Balances - End of Year	\$ 737,680	394,962	1,132,642

9. Related Party

During 2012, the Association paid \$17,077 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, 2012, the Association owed the Elks Peaks Consulting Group LTD \$75 for services provided.

The Association also paid \$15,000 to Mountain Lawn LLC for weed spraying services during 2012. A portion of Mountain Lawn LLC is owned by a Board member of the Association. At December 31, 2012, the Association had paid all amounts due to Mountain Lawn LLC

10. Restatement

The Association's operating fund equity as of January 1, 2011 has been restated to reflect additional 2009, 2010, and 2011 lawn mowing services totaling \$13,467 provided by the Association to Tamarisk Village during the period, but not invoiced until 2013.

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, 2012
(With Comparative Totals For the Year Ended 2011)

	<u>2012</u>			<u>2011</u>
	<u>Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Assessments	\$ 815,850	788,350	(27,500)	307,455
Cable television franchise fee	13,000	15,763	2,763	20,636
Investment income	50	24	(26)	341
Other	91,300	90,752	(548)	120,568
Total Revenues	<u>920,200</u>	<u>894,889</u>	<u>(25,311)</u>	<u>449,000</u>
Expenses:				
Maintenance	350,600	341,710	8,890	338,004
Utilities	203,000	206,124	(3,124)	204,280
Sprinkler system	158,000	156,434	1,566	140,774
Management fees	72,000	72,000	-	59,460
Office expense	36,150	34,195	1,955	39,587
Insurance	13,600	13,447	153	12,016
Legal and accounting	54,000	51,246	2,754	69,959
Security	16,800	16,800	-	14,400
Income taxes	7,500	5,684	1,816	14,336
Bad debt	8,500	8,216	284	25,920
Miscellaneous	50	-	50	43
Total Expenses	<u>\$ 920,200</u>	<u>905,856</u>	<u>14,344</u>	<u>918,779</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, 2012
(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 2012</u>
Street lights	1 - 2	\$ 226,000	-
Fences	1 - 15	525,000	-
Trails	1 - 19	554,000	-
Other improvements	1 - 10	65,000	-
Totals		<u><u>\$ 1,370,000</u></u>	<u><u>1,132,642</u></u>

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