

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2017
(With Comparative Totals For 2016)

	<u>2017</u>			<u>2016</u>
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 177,644	142,687	320,331	300,800
Investments	-	500,030	500,030	599,799
Assessments receivable, net	52,213	-	52,213	53,767
Other receivables	2,697	-	2,697	2,236
Prepaid expenses	-	-	-	1,000
Due (to) from other fund	(24,214)	24,214	-	-
Land	100	49,215	49,315	49,315
Total Assets	<u>208,440</u>	<u>716,146</u>	<u>924,586</u>	<u>1,006,917</u>
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	82,380	79,506	161,886	53,877
Other current liabilities	3,740	-	3,740	-
Deferred assessment revenue	113,527	-	113,527	108,612
Total Liabilities	<u>199,647</u>	<u>79,506</u>	<u>279,153</u>	<u>162,489</u>
Fund Equity:				
Fund balances	8,793	636,640	645,433	844,428
Total Fund Equity	<u>8,793</u>	<u>636,640</u>	<u>645,433</u>	<u>844,428</u>
Total Liabilities and Fund Equity	<u>\$ 208,440</u>	<u>716,146</u>	<u>924,586</u>	<u>1,006,917</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, 2017
(With Comparative Totals For 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Assessments	\$ 857,017	42,300	899,317	893,016
Cable television franchise fee	8,203	-	8,203	8,990
Investment income	22	5,076	5,098	4,199
Other	90,800	-	90,800	68,347
Total Revenues	<u>956,042</u>	<u>47,376</u>	<u>1,003,418</u>	<u>974,552</u>
Expenses:				
Maintenance	350,352	-	350,352	352,503
Utilities	170,157	-	170,157	171,915
Sprinkler system	172,370	-	172,370	161,137
Management fees	100,004	-	100,004	96,000
Office expense	35,493	-	35,493	46,114
Insurance	12,951	-	12,951	12,941
Professional fees	41,655	-	41,655	47,792
Security	17,969	-	17,969	16,800
Income taxes	1,400	-	1,400	1,757
Bad debt	34,853	-	34,853	15,495
Miscellaneous	188	-	188	-
Replacement Fund expenses	-	265,021	265,021	68,134
Total Expenses	<u>937,392</u>	<u>265,021</u>	<u>1,202,413</u>	<u>990,588</u>
Excess (Deficiency) of Revenues Over Expenses	18,650	(217,645)	(198,995)	(16,036)
Fund Balances (Deficit) - Beginning of Year	<u>(9,857)</u>	<u>854,285</u>	<u>844,428</u>	<u>860,464</u>
Fund Balances - End of Year	<u>\$ 8,793</u>	<u>636,640</u>	<u>645,433</u>	<u>844,428</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, 2017
(With Comparative Totals For 2016)

	2017			2016
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners for assessments	\$ 828,633	42,300	870,933	891,236
Cash received for interest	22	4,845	4,867	3,676
Cash received from other sources	98,542	-	98,542	77,748
Cash (paid) to vendors	(859,796)	(193,615)	(1,053,411)	(916,916)
Income taxes paid	(1,400)	-	(1,400)	(1,757)
Transfers (to) from other funds	(1,200)	1,200	-	-
Net Cash Provided (Used) by Operating Activities	64,801	(145,270)	(80,469)	53,987
Cash Flows From Investing Activities:				
Cash paid to purchase investments	-	(600,000)	(600,000)	(600,000)
Cash received from matured investments	-	700,000	700,000	600,000
Net Cash Provided (Used) By Investing Activities	-	100,000	100,000	-
Net Increase (Decrease) In Cash	64,801	(45,270)	19,531	53,987
Cash at Beginning of Period	112,843	187,957	300,800	246,813
Cash at End of Period	177,644	142,687	320,331	300,800
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:				
Excess (Deficiency) of revenues over expenses	18,650	(217,645)	(198,995)	(16,036)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:				
Unrealized gain (loss) on investments	-	(231)	(231)	(523)
Decrease (increase) in assessments receivable, net	1,554	-	1,554	27,548
Decrease (increase) in other accounts receivable	(461)	-	(461)	410
Decrease (increase) in prepaid expenses	1,000	-	1,000	3,000
Increase (decrease) in accounts payable	36,603	71,406	108,009	50,127
Increase (decrease) in deferred assessment revenue	4,915	-	4,915	(963)
Increase (decrease) in accrued expenses	3,740	-	3,740	(9,576)
Net change in interfund balances	(1,200)	1,200	-	-
Total Adjustments	46,151	72,375	118,526	70,023
Net Cash Provided (Used) By Operating Activities	\$ 64,801	(145,270)	(80,469)	53,987

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, 2017

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, 2017, 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, 2017
(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, 2017, the Association has established an allowance for uncollectible owner's assessments receivable of \$63,218.

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, 2017
(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 2014 by the Internal Revenue Service and for tax years prior to 2013 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 the date of the auditor's report.

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, 2016, from which the comparative totals were derived.

3. Investments

	Operating Fund	Replacement Fund	Total
Certificates of deposit:			
Maturing within one year, interest at 1.15% - 1.40% p.a.	\$ -	500,030	500,030
Total	\$ -	500,030	500,030

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017
(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	\$ 22	4,845	4,867
Net gains (loses)	-	231	231
Total	\$ 22	5,076	5,098

The fair values of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Value	Quoted Prices in Active Markets (Level 1)
Certificates of deposit	\$ 500,030	500,030
Total	\$ 500,030	500,030

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 \$636,640 at December 31, 2017.

Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017
(Continued)

5. Homeowners' Fees and Economic Dependence

As of December 31, 2017, 2 unimproved units and 123 developed units of the 2,432 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 \$36,704 in assessments for the year ended December 31, 2017. 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 2017, a member of the Association owned 766.5 assessment units. The member paid \$226,884 in assessments for the year ended December 31, 2017. This amount represents approximately 25% of the total assessments charged by the Association. Another member of the Association owned 427 assessment units. The member paid \$126,392 in assessments for the year ended December 31, 2017. This amount represents approximately 14% of the 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 \$2,456. 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, 2017, the contingency fund balance had cumulative assessments in excess of expenditures of \$7,904. 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. In December 2017, the Association entered into another management agreement with BMMD to commence on January 1, 2018 and end on December 31, 2018.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017
(Continued)**

7. Management Contract (continued)

Payments to BMMD for services provided under the management agreement during the year ended December 31, 2017 are included in these financial statements as follows:

Maintenance	\$ 9,952
Irrigation water	161,021
Management and accounting	100,004
Office expense	6,324
Street sweeping	15,000
Covenant enforcement	16,509
Replacement expenses	<u>997</u>
Total	<u>\$ 309,807</u>

As of December 31, 2017, the Association owed \$10,533 to BMMD.

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, 2017, 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	\$ 503,174	351,111	854,285
Revenues:			
Assessments	33,840	8,460	42,300
Interest	3,876	969	4,845
Gain/(loss) on investments	185	46	231
Expenses	<u>(27,887)</u>	<u>(237,134)</u>	<u>(265,021)</u>
Balances - End of Year	<u>\$ 513,188</u>	<u>123,452</u>	<u>636,640</u>

9. Related Parties

A. Mountain Lawn LLC

The Association paid \$16,068 to Mountain Lawn LLC for weed management services during 2017. A portion of Mountain Lawn LLC is owned by a Board member of the Association.

**Battlement Mesa Service Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2017
(Continued)**

9. Related Parties (continued)

B. Parkway Services

The Association paid \$13,980 to Parkway Services in accordance with a signed contract for street litter pickup services during 2017. Parkway Services is owned by a family member of the Association's accounting manager.

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, 2017
(With Comparative Totals For the Year Ended 2016)

	2017		Variance Positive (Negative)	2016
	Amended Budget (Unaudited)	Actual		Actual
Revenues:				
Assessments	\$ 865,100	857,017	(8,083)	834,540
Cable television franchise fee	8,500	8,203	(297)	8,990
Investment income	20	22	2	18
Other	67,000	90,800	23,800	68,347
Total Revenues	940,620	956,042	15,422	911,895
Expenses:				
Maintenance	352,100	350,352	1,748	352,503
Utilities	170,500	170,157	343	171,915
Sprinkler system	172,700	172,370	330	161,137
Management fees	100,100	100,004	96	96,000
Office expense	36,800	35,493	1,307	46,114
Insurance	13,000	12,951	49	12,941
Professional fees	46,900	41,655	5,245	47,792
Security	18,000	17,969	31	16,800
Income taxes	1,500	1,400	100	1,757
Bad debt	4,000	34,853	(30,853)	15,495
Miscellaneous	200	188	12	-
Total Expenses	\$ 915,800	937,392	(21,592)	922,454

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, 2017
(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 2017</u>
Median improvements	0-5	\$ 140,000	-
Fences	0-13	281,000	-
Trails	0-13	80,000	-
Other improvements	0-8	144,000	-
Totals		<u><u>\$ 645,000</u></u>	<u><u>636,640</u></u>

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