

**Blue Lake Owners' Association**

**Financial Statements**

**(Unaudited)**

**December 31, 2014**



**Blue Lake Owners' Association  
(A Colorado Non-Profit Corporation)  
December 31, 2014 and 2013  
(Unaudited)**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

**To the Board of Directors  
Blue Lake Owners' Association  
Carbondale, CO**

We have reviewed the accompanying financial statements of Blue Lake Owners' Association (the "Association"), a Colorado non-profit corporation, which comprise the balance sheets as of December 31, 2014, and the related statements of revenues, expenses and changes in equity, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Association's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the accounting principles generally accepted in the United States of America

The prior year summarized information has been derived from the Association's fiscal year 2013 financial statements, which were audited by us. Our report dated April 16, 2015 stated we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with the accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with U.S. generally accepted accounting principles. The information included in the accompanying supplemental schedules on page 10 is presented only for the purpose of additional analysis. Such information (except the Association's budget, which was compiled from information that is the representation of management, without audit or review, and on which we do not express an opinion or provide any assurance) has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made to it.

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Accounting principles generally accepted in the United States of America require that the Schedule of Future Major Repairs and Replacements on page 11 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 compiled the required supplementary information from information that is the representation of management without audit or review, and, accordingly, we do not express an opinion or provide any assurance on it.

**McMahan and Associates, L.L.C.**  
**August 02, 2015**

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Balance Sheets**  
**December 31, 2014**  
**(With Comparative Totals for December 31, 2013)**  
**(Unaudited)**

	<b>2014</b>		<b>2013</b>	
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>	<b>Total</b>
<b>Assets:</b>				
Cash and cash equivalents	38,678	85,270	123,948	198,729
Investments - Certificates of deposit	-	417,748	417,748	265,754
Accounts receivable - Owners (net)	9,866	-	9,866	8,995
Accounts receivable - Other (net)	3,835	-	3,835	-
Property and equipment, net	254,485	-	254,485	260,060
Due from (to) other fund	8,429	(8,429)	-	-
<b>Total Assets</b>	<b>315,293</b>	<b>494,589</b>	<b>809,882</b>	<b>733,538</b>
<b>Liabilities and Fund Equity:</b>				
<b>Liabilities:</b>				
Accounts payable	1,066	-	1,066	3,416
Deferred assessment revenue	4,428	-	4,428	7,517
Accrued payroll and payroll taxes	7,044	-	7,044	7,007
Deposits	7,655	-	7,655	6,580
<b>Total Liabilities</b>	<b>20,193</b>	<b>-</b>	<b>20,193</b>	<b>24,520</b>
<b>Fund Equity:</b>				
Working capital	53,112	-	53,112	49,972
Fund balances	241,988	494,589	736,577	659,046
<b>Total Fund Equity</b>	<b>295,100</b>	<b>494,589</b>	<b>789,689</b>	<b>709,018</b>
<b>Total Liabilities and Fund Equity</b>	<b>315,293</b>	<b>494,589</b>	<b>809,882</b>	<b>733,538</b>

See accompanying notes and Independent Accountant's Review Report.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Statements of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2014**  
**(With Comparative Totals for the Year Ended December 31, 2013)**  
**(Unaudited)**

	<b>2014</b>			<b>2013</b>
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>	<b>Total</b>
<b>Revenues:</b>				
Common assessments	266,490	107,310	373,800	373,800
Surplus assessment reimbursement	-	-	-	(37,674)
Trash service assessments	56,262	-	56,262	55,146
Rental income - Office and Community Center	47,818	-	47,818	49,534
Rental income - Storage lots	19,612	-	19,612	18,649
Finance charges and fines	2,074	-	2,074	3,939
Interest income	53	2,155	2,208	2,171
Other income	-	-	-	435
<b>Total Revenues</b>	<b>392,309</b>	<b>109,465</b>	<b>501,774</b>	<b>466,000</b>
<b>Expenses:</b>				
Payroll and benefits	140,713	-	140,713	140,208
Utilities	69,615	-	69,615	72,556
Depreciation	17,408	-	17,408	17,220
Insurance	22,308	-	22,308	24,862
Professional fees	630	-	630	8,163
Irrigation	5,671	-	5,671	6,845
Interest	-	-	-	593
Income tax expense	4,512	-	4,512	6,319
Grounds maintenance	84,483	-	84,483	68,041
Office expense	4,457	-	4,457	5,362
Repairs and maintenance	26,796	-	26,796	32,607
Other	4,260	-	4,260	4,347
Replacement Fund expenses	-	43,390	43,390	17,809
<b>Total Expenses</b>	<b>380,853</b>	<b>43,390</b>	<b>424,243</b>	<b>404,932</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>11,456</b>	<b>66,075</b>	<b>77,531</b>	<b>61,068</b>
<b>Beginning Fund Balances</b>	<b>230,532</b>	<b>428,514</b>	<b>659,046</b>	<b>597,978</b>
<b>Ending Fund Balances</b>	<b>241,988</b>	<b>494,589</b>	<b>736,577</b>	<b>659,046</b>

See accompanying notes and Independent Accountant's Review Report.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Statements of Cash Flows**  
**For the Year Ended December 31, 2014**  
**(With Comparative Totals for the Year Ended December 31, 2013)**  
**(Unaudited)**

	<b>2014</b>			<b>2013</b>
	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>				
Cash received from owners	340,478	107,310	447,788	430,812
Cash received from investment income	53	163	216	182
Other cash receipts	45,058	-	45,058	51,819
Cash payments for goods and services	(220,572)	(43,390)	(263,962)	(239,839)
Cash paid for employees	(140,676)	-	(140,676)	(140,157)
Income taxes paid	(4,512)	-	(4,512)	(593)
Transfer from (to) other funds, net	(8,429)	8,429	-	(8,949)
<b>Net Cash Provided by Operating Activities</b>	<b>11,400</b>	<b>72,512</b>	<b>83,912</b>	<b>93,275</b>
<b>Cash Flows From Investing Activities:</b>				
Cash paid to purchase investments	-	(150,000)	(150,000)	-
Cash paid to purchase fixed assets	(12,214)	-	(12,214)	(838)
Reimbursements received for capital asset purchases	381	-	381	-
<b>Net Cash (Used) by Investing Activities</b>	<b>(11,833)</b>	<b>(150,000)</b>	<b>(161,833)</b>	<b>(838)</b>
<b>Cash Flows From Financing Activities:</b>				
Net cash received from working capital deposits	3,140	-	3,140	4,849
Principal paid on note payable	-	-	-	(34,945)
<b>Net Cash (Used) by Financing Activities</b>	<b>3,140</b>	<b>-</b>	<b>3,140</b>	<b>(30,096)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,707</b>	<b>(77,488)</b>	<b>(74,781)</b>	<b>62,341</b>
<b>Beginning Cash and Cash Equivalents</b>	<b>35,971</b>	<b>162,758</b>	<b>198,729</b>	<b>136,388</b>
<b>Ending Cash and Cash Equivalents</b>	<b>38,678</b>	<b>85,270</b>	<b>123,948</b>	<b>198,729</b>
<b>Ending Cash and Cash Equivalents is Comprised of:</b>				
Cash and cash equivalents	38,678	85,270	123,948	198,729
<b>Total Ending Cash and Cash Equivalents</b>	<b>38,678</b>	<b>85,270</b>	<b>123,948</b>	<b>198,729</b>
<b>Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:</b>				
Excess (deficiency) of revenues over expenses	11,456	66,075	77,531	61,068
<b>Adjustments to reconcile:</b>				
Depreciation	17,408	-	17,408	17,220
(Increase) decrease - Accrued interest on certificates of deposit	-	(1,992)	(1,992)	(1,987)
(Increase) decrease - Accounts receivable - Owners	(871)	-	(871)	11,553
(Increase) decrease - Accounts receivable - Other	(3,835)	-	(3,835)	-
Increase (decrease) - Accounts payable	(2,352)	-	(2,352)	751
Increase (decrease) - Deferred revenue	(3,089)	-	(3,089)	5,399
Increase (decrease) - Accrued payroll and payroll taxes	37	-	37	51
Increase (decrease) - Accrued income taxes	-	-	-	(2,630)
Increase (decrease) - Deposits	1,075	-	1,075	1,850
Transfer from (to) other fund	(8,429)	8,429	-	-
<b>Total Adjustments</b>	<b>(56)</b>	<b>6,437</b>	<b>6,381</b>	<b>32,207</b>
<b>Net Cash Provided by Operating Activities</b>	<b>11,400</b>	<b>72,512</b>	<b>83,912</b>	<b>93,275</b>

See accompanying notes and Independent Accountant's Review Report.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2014**  
**(Unaudited)**

**1. Organization**

Blue Lake Owners' Association (the "Association"), a planned unit development, was incorporated in the State of Colorado as a non-profit corporation pursuant to Articles of Incorporation dated July 11, 1984. The Association's primary purpose is to operate and maintain the common property of the Association.

The Association, which is located in Carbondale, Colorado, consists of 350 homes/lots and common areas.

**2. Summary of Significant Accounting Policies**

**A. Fund Accounting**

The Association uses the fund method of accounting, which requires that funds, such as operating funds and funds for future major repairs and replacements, 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 of the Association (the "Board"). Disbursements from the Replacement Fund may be made only for their designated purposes.

**B. Basis of Accounting**

These financial statements have been prepared on the accrual basis of accounting, which recognizes revenues when earned or assessed, and expenses when incurred.

**C. Recognition of Assets**

The Association recognizes as assets on its financial statements:

- (a) common personal property and;
- (b) common real property to which it has title and that it can dispose of for cash, while retaining the proceeds thereto.

These are assets recorded at cost and are depreciated using the straight-line method over estimated useful lives of five to thirty-nine years.

Real common property, including infrastructure assets and other assets which cannot be readily disposed for cash, are not recognized as assets on the Association's financial statements.

**D. Cash and Cash Equivalents**

The Association considers all checking accounts, savings accounts and money market savings accounts to be cash equivalents for the purpose of the Statement of Cash Flows, since all such funds are highly liquid.

**E. Investments**

The Association has invested certain excess funds in certificates of deposit. Because these certificates of deposit are intended to fund operations and may provide a ready source of cash when so required, these investments are classified as trading.



**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2014**  
**(Unaudited)**  
**(Continued)**

**2. Summary of Significant Accounting Policies (continued)**

**F. Allowance for Uncollectible Amounts**

The Association utilizes the allowance method of recognizing the future potential uncollectibility of assessments receivable from owners. An allowance of \$2,472 was recorded at December 31, 2014 to estimate uncollectible accounts. The Association's policy is to charge late fees to owner accounts at the end of each month an account is delinquent. Liens may be filed on accounts with delinquent balances that are 100 or more days past due.

**G. Deferred Revenue**

Deferred revenue represents prepaid assessments.

**H. Working Capital**

Working capital represents contributions made to the Association by the condominium unit owner at the time of their purchase of the unit. This amount is equal to three months' assessments at the time of the purchase.

**I. Common Assessments**

Common assessments are the primary source of revenue for the Association. The Board prepares an annual budget to estimate the annual expenses of maintaining the Association's common elements. On a monthly basis, members of the Association are assessed for their pro-rata 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.

**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 Company are subject to examination by the Internal Revenue Service and Colorado Department of Revenue. The Company is no longer subject to examination for tax years prior to 2009.

**K. Investment Income Allocation**

Interest income is recorded in the fund holding the underlying source of investment income.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2014**  
**(Unaudited)**  
**(Continued)**

**2. Summary of Significant Accounting Policies (continued)**

**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 amounts or revenues and expenses during the reporting period. Actual results could differ from those estimates.

**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, 2013, from which the comparative totals were derived.

**M. Subsequent Events**

Management has evaluated subsequent events through August 2, 2015, the date these financial statements were available to be issued.

**3. Investments**

Certificates of deposit, maturing within one to two years, bearing interest at 0.30% - 1.25% per annum	<u>\$ 417,748</u>
<b>Total Investments</b>	<u><u>\$ 417,748</u></u>

**4. Property and Equipment**

Buildings and improvements	\$ 501,064
Equipment and vehicles	<u>119,365</u>
At cost	620,429
Less: Accumulated depreciation	<u>(365,944)</u>
<b>Net Book Value</b>	<u><u>\$ 254,485</u></u>

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Notes to the Financial Statements**  
**December 31, 2014**  
**(Unaudited)**  
**(Continued)**

**5. Operating Lease Commitments**

The Association leases office and community center space to tenants under operating leases with initial terms of one to ten years. The Association received \$47,818 from these leases during the year ended December 31, 2014. The following is a schedule of future minimum rentals under the leases at December 31, 2014:

	Office Lease #1	Office Lease #2	Community Center Lease	Total
2015	\$ 5,185	5,400	36,053	46,638
2016	5,289	5,400	18,026	28,715
2017	5,395	5,400	-	10,795
2018	5,502	5,400	-	10,902
2019	920	-	-	920
<b>Total Minimum Lease Payments</b>	<b>\$ 22,291</b>	<b>21,600</b>	<b>54,079</b>	<b>97,970</b>

**6. Replacement Funds and Reserve for Future Major Repairs and Replacements**

The Association is accumulating funds for future major repairs and replacements of the Association's property as required in its Declaration of Covenants, Conditions, and Restrictions. Accumulated funds are held in a separate savings account and certificates of deposit and generally are not available for expenditures for normal operations.

The Board commissioned a study, which was completed in 2013, to estimate the remaining useful lives and the replacement costs of the components of common property. These estimates were based on visual observations of representative samplings during an on-site visit by an engineering firm and assume a 3% rate of inflation and interest. The unaudited supplemental Schedule of Future Major Repairs and Replacements on page 11 is based on that study.

In accordance with industry guidelines, it is the Association's primary duty to maintain and preserve the common property of the owners. Therefore, it is the Association's responsibility to determine a method for funding the costs of future major repairs and maintenance by assessing owners when funds are needed or by anticipating costs over extended time periods, assessing owners for the anticipated costs, and accumulating funds in reserves to meet the future funding requirements. The Board has chosen to fund major repairs and replacements over the remaining useful lives of the components, based on the study's estimates of current replacement costs and considering amounts previously accumulated in the Replacement Fund.

Funds are being accumulated in the Replacement Funds based on estimates for 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 Board approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

During the year ended December 31, 2014, the Association levied \$107,310 of Replacement Fund assessments.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Schedule of Operating and Replacement Funds - Budget to Actual Comparison**  
**For the Year Ended December 31, 2014**  
**(With Comparative Actual Amounts for the Year Ended December 31, 2013)**  
**(Unaudited)**

	<u>2014</u>		<b>Variance Favorable/ (Unfavorable)</b>	<u>2013</u>
	<b>Budget (Unaudited)</b>	<b>Actual</b>		<b>Actual</b>
<b>Revenues:</b>				
Common assessments - Operating	266,490	266,490	-	274,890
Common assessments - Replacement	107,310	107,310	-	98,910
Surplus assessment reimbursement	-	-	-	(37,674)
Trash service assessments	54,600	56,262	1,662	55,146
Rental income - Office and Community Center	48,022	47,818	(204)	49,534
Rental income - Storage lots	19,200	19,612	412	18,649
Finance charges and fines	1,344	2,074	730	3,939
Interest income - Operating	-	53	53	-
Interest income - Replacement	2,233	2,155	(78)	2,171
Other income	560	-	(560)	435
<b>Total Revenues</b>	<u>499,759</u>	<u>501,774</u>	<u>2,015</u>	<u>466,000</u>
<b>Expenses:</b>				
<b>Operating Fund:</b>				
Payroll and benefits	164,136	140,713	23,423	140,208
Utilities	73,130	69,615	3,515	72,556
Depreciation	19,000	17,408	1,592	17,220
Insurance	28,122	22,308	5,814	24,862
Professional fees	5,710	630	5,080	8,163
Irrigation	6,950	5,671	1,279	6,845
Interest	-	-	-	593
Income tax expense	6,000	4,512	1,488	6,319
Grounds maintenance	88,600	84,483	4,117	68,041
Office expense	4,920	4,457	463	5,362
Repairs and maintenance	12,006	26,796	(14,790)	32,607
Other	6,295	4,260	2,035	4,347
<b>Subtotal - Operating Fund</b>	<u>414,869</u>	<u>380,853</u>	<u>34,016</u>	<u>387,123</u>
<b>Replacement Fund:</b>				
Sidewalks	43,500	43,390	110	-
Landscaping	-	-	-	12,615
Shop Roof	-	-	-	5,194
<b>Subtotal - Replacement Fund</b>	<u>43,500</u>	<u>43,390</u>	<u>110</u>	<u>17,809</u>
<b>Total Expenses</b>	<u>458,369</u>	<u>424,243</u>	<u>34,126</u>	<u>404,932</u>
<b>Excess of Revenues Over Expenses</b>	<u>41,390</u>	<u>77,531</u>	<u>36,141</u>	<u>61,068</u>

See accompanying notes and Independent Accountant's Review Report.

**Blue Lake Owners' Association**  
**(A Colorado Non-Profit Corporation)**  
**Schedule of Future Major Repairs and Replacements**  
**December 31, 2014**  
**(Unaudited)**

During fiscal year 2013, the Association's Board of Directors commissioned a study by independent reserve study engineers to estimate the remaining useful lives and the replacement costs of the components of common property. The study projected future fund balances, but did not allocate fund balance between the individual items, nor has the Board elected to allocate fund balance between the components of common property.

The following table is based on the study and presents significant information about the components of the Association's common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance 2014</u>
Concrete and asphalt	0-19	192,050	
Maintenance equipment	9-19	104,000	
Recreation equipment	9-29	112,850	
Fencing	4-24	79,500	
Doors and windows	19	48,000	
Siding	4-9	16,950	
Irrigation system	9	15,200	
Street lights and gate operators	9	3,300	
Monument and mailboxes	24	15,000	
Office interiors and equipment	4-14	18,000	
Landscaping and bridge	9-24	26,100	
Boilers	24	3,000	
<b>Total</b>		<u>633,950</u>	<u>494,589</u>