

Blue Lake Owners' Association

Financial Statements

(Unaudited)

December 31, 2015



**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
December 31, 2015
(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, 2015, and the related statements of revenues, expenses, and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association 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 an opinion.

Management's Responsibility for the Financial Statements

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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.

Other Matters

The prior year summarized information has been derived from the Association's fiscal year 2014 financial statements, which were reviewed by us. Our report dated August 2, 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.

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT
To the Board of Directors
Blue Lake Owners' Association

Other Matters (continued)

The supplementary Schedule of Operating and Replacement Funds – Budget to Actual Comparison appearing on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of the Association's management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

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. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

McMahan and Associates, L.L.C.
April 20, 2016

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2015
(With Comparative Totals for December 31, 2014)
(Unaudited)

	2015		2014	
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Cash and cash equivalents	78,334	121,136	199,470	123,948
Investments - Certificates of deposit	-	420,272	420,272	417,748
Accounts receivable - Owners (net)	3,140	-	3,140	9,866
Accounts receivable - Other (net)	-	-	-	3,835
Property and equipment, net	259,895	-	259,895	254,485
Due from (to) other fund	(27,270)	27,270	-	-
Total Assets	314,099	568,678	882,777	809,882
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	2,903	-	2,903	1,067
Deferred assessment revenue	6,597	-	6,597	4,428
Accrued payroll and payroll taxes	7,430	-	7,430	7,044
Deposits	8,555	-	8,555	7,655
Total Liabilities	25,485	-	25,485	20,194
Fund Equity:				
Working capital	55,423	-	55,423	53,112
Fund balances	233,191	568,678	801,869	736,576
Total Fund Equity	288,614	568,678	857,292	789,688
Total Liabilities and Fund Equity	314,099	568,678	882,777	809,882

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, 2015
(With Comparative Totals for the Year Ended December 31, 2014)
(Unaudited)

	2015		2014	
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Common assessments	266,490	107,310	373,800	373,800
Trash service assessments	56,000	-	56,000	56,262
Rental income - Office and Community Center	52,162	-	52,162	47,818
Rental income - Storage lots	19,561	-	19,561	19,612
Finance charges and fines	(1,207)	-	(1,207)	2,074
Interest income	20	2,659	2,679	2,208
	<u>393,026</u>	<u>109,969</u>	<u>502,995</u>	<u>501,774</u>
Total Revenues				
Expenses:				
Payroll and benefits	158,546	-	158,546	140,713
Utilities	72,680	-	72,680	69,615
Depreciation	17,898	-	17,898	17,408
Insurance	25,959	-	25,959	22,308
Professional fees	13,994	-	13,994	630
Irrigation	10,013	-	10,013	5,671
Interest	9	-	9	-
Income tax expense	3,000	-	3,000	4,512
Grounds maintenance	73,826	-	73,826	84,483
Office expense	4,631	-	4,631	4,457
Repairs and maintenance	12,229	-	12,229	26,796
Other	9,039	-	9,039	4,260
Replacement Fund expenses	-	35,878	35,878	43,390
	<u>401,824</u>	<u>35,878</u>	<u>437,702</u>	<u>424,243</u>
Total Expenses				
Excess (Deficiency) of Revenues Over Expenses	(8,798)	74,091	65,293	77,531
Beginning Fund Balances	<u>241,989</u>	<u>494,587</u>	<u>736,576</u>	<u>659,045</u>
Ending Fund Balances	<u><u>233,191</u></u>	<u><u>568,678</u></u>	<u><u>801,869</u></u>	<u><u>736,576</u></u>

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, 2015
(With Comparative Totals for the Year Ended December 31, 2014)
(Unaudited)

	2015			2014
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners	349,739	107,310	457,049	447,788
Cash received from investment income	20	135	155	216
Other cash receipts	56,897	-	56,897	45,058
Cash payments for goods and services	(220,547)	(35,876)	(256,423)	(263,962)
Cash paid for employees	(158,160)	-	(158,160)	(140,676)
Income taxes paid	(3,000)	-	(3,000)	(4,512)
Transfer from (to) other funds, net	35,703	(35,703)	-	-
Net Cash Provided by Operating Activities	<u>60,652</u>	<u>35,866</u>	<u>96,518</u>	<u>83,912</u>
Cash Flows From Investing Activities:				
Cash paid to purchase investments	-	-	-	(150,000)
Cash paid to purchase fixed assets	(23,307)	-	(23,307)	(12,214)
Reimbursements received for capital asset purchases	-	-	-	381
Net Cash (Used) by Investing Activities	<u>(23,307)</u>	<u>-</u>	<u>(23,307)</u>	<u>(161,833)</u>
Cash Flows From Financing Activities:				
Net cash received from working capital deposits	2,311	-	2,311	3,140
Net Cash (Used) by Financing Activities	<u>2,311</u>	<u>-</u>	<u>2,311</u>	<u>3,140</u>
Net Increase (Decrease) in Cash and Cash Equivalents	39,656	35,866	75,522	(74,781)
Beginning Cash and Cash Equivalents	<u>38,678</u>	<u>85,270</u>	<u>123,948</u>	<u>198,729</u>
Ending Cash and Cash Equivalents	<u><u>78,334</u></u>	<u><u>121,136</u></u>	<u><u>199,470</u></u>	<u><u>123,948</u></u>
Ending Cash and Cash Equivalents is Comprised of:				
Cash and cash equivalents	78,334	121,136	199,470	123,948
Total Ending Cash and Cash Equivalents	<u><u>78,334</u></u>	<u><u>121,136</u></u>	<u><u>199,470</u></u>	<u><u>123,948</u></u>
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:				
Excess (deficiency) of revenues over expenses	<u>(8,798)</u>	<u>74,091</u>	<u>65,293</u>	<u>77,531</u>
Adjustments to reconcile:				
Depreciation	17,898	-	17,898	17,408
(Increase) decrease - Accrued interest on certificates of deposit	-	(2,522)	(2,522)	(1,992)
(Increase) decrease - Accounts receivable - Owners	6,726	-	6,726	(871)
(Increase) decrease - Accounts receivable - Other	3,835	-	3,835	(3,835)
Increase (decrease) - Accounts payable	1,833	-	1,833	(2,352)
Increase (decrease) - Deferred revenue	2,169	-	2,169	(3,089)
Increase (decrease) - Accrued payroll and payroll taxes	386	-	386	37
Increase (decrease) - Deposits	900	-	900	1,075
Transfer from (to) other fund	35,703	(35,703)	-	-
Total Adjustments	<u>69,450</u>	<u>(38,225)</u>	<u>31,225</u>	<u>6,381</u>
Net Cash Provided by Operating Activities	<u><u>60,652</u></u>	<u><u>35,866</u></u>	<u><u>96,518</u></u>	<u><u>83,912</u></u>

See accompanying notes and Independent Accountant's Review Report.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Operating and Replacement Funds
Budget (Budget Basis) to Actual (GAAP Basis) Comparison
For the Year Ended December 31, 2015
(With Comparative Actual Amounts for the Year Ended December 31, 2014)
(Unaudited)

	<u>2015</u>		<u>Variance Favorable/ (Unfavorable)</u>	<u>2014</u>
	<u>Budget (Unaudited)</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Common assessments - Operating	266,490	266,490	-	266,490
Common assessments - Replacement	107,310	107,310	-	107,310
Trash service assessments	54,600	56,000	1,400	56,262
Rental income - Office and Community Center	48,111	52,162	4,051	47,818
Rental income - Storage lots	19,375	19,561	186	19,612
Finance charges and fines	588	(1,207)	(1,795)	2,074
Interest income - Operating	-	20	20	53
Interest income - Replacement	2,620	2,659	39	2,155
Other income	560	-	(560)	-
Total Revenues	<u>499,654</u>	<u>502,995</u>	<u>3,341</u>	<u>501,774</u>
Expenses:				
Operating Fund:				
Payroll and benefits	165,094	158,546	6,548	140,713
Utilities	73,446	72,680	766	69,615
Depreciation	25,000	17,898	7,102	17,408
Insurance	16,535	25,959	(9,424)	22,308
Professional fees	6,360	13,994	(7,634)	630
Irrigation	7,943	10,013	(2,070)	5,671
Interest	-	9	(9)	-
Income tax expense	5,300	3,000	2,300	4,512
Grounds maintenance	75,600	73,826	1,774	84,483
Office expense	3,852	4,631	(779)	4,457
Repairs and maintenance	17,640	12,229	5,411	26,796
Other	7,479	9,039	(1,560)	4,260
Subtotal - Operating Fund	<u>404,249</u>	<u>401,824</u>	<u>2,425</u>	<u>380,853</u>
Replacement Fund:				
Window Replacement	20,000	19,948	52	12,214
Sidewalks	-	4,545	(4,545)	43,390
Sign Refurbishing	-	1,754	(1,754)	-
Entry Gate - Motors	-	6,418	(6,418)	-
Landscaping	35,000	23,161	11,839	-
Subtotal - Replacement Fund	<u>55,000</u>	<u>55,826</u>	<u>(826)</u>	<u>55,604</u>
Total Expenses	<u>459,249</u>	<u>457,650</u>	<u>1,599</u>	<u>436,457</u>
Excess of Revenues Over Expenses (Budget Basis)	<u>40,405</u>	45,345	4,940	65,317

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, 2015
(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, 2015
(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, 2015 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 2012.

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, 2015
(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, 2014, from which the comparative totals were derived.

M. Subsequent Events

Management has evaluated subsequent events through April 20, 2016, 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>\$ 420,272</u>
Total Investments	<u><u>\$ 420,272</u></u>

4. Property and Equipment

Buildings and improvements	\$ 520,822
Equipment and vehicles	<u>122,915</u>
At cost	643,737
Less: Accumulated depreciation	<u>(383,842)</u>
Net Book Value	<u><u>\$ 259,895</u></u>

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 \$52,162 from these leases during the year ended December 31, 2015. The following is a schedule of future minimum rentals under the leases at December 31, 2015:

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2015
(Unaudited)
(Continued)

5. Operating Lease Commitments (Continued)

	Office Lease #1	Office Lease #2	Community Center Lease	Total
2016	5,222	-	37,200	42,422
2017	5,395	-	37,200	42,595
2018	5,502	-	37,200	42,702
2019	920	-	37,200	38,120
2020	-	-	37,200	37,200
Total Minimum Lease Payments	\$ 17,039	-	186,000	203,039

In June 2015, the Board of Directors agreed to reduce the rent on Office Lease #1 based on certain conditions. The agreement provides for the possibility of reducing the rent to \$400 a month. The above schedule anticipates the reduced rent through March 1, 2016.

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, 2015, the Association levied \$107,310 of Replacement Fund assessments.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2015
(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 2015</u>
Concrete and asphalt	0-4	192,050	
Maintenance equipment	0-12	104,000	
Recreation equipment	0-20	112,850	
Fencing	1-7	79,500	
Doors and windows	0	48,000	
Siding	0	16,950	
Irrigation system	2	15,200	
Street lights and gate operators	0	3,300	
Monument and mailboxes	7	15,000	
Office interiors and equipment	0-7	18,000	
Landscaping and bridge	5-12	26,100	
Boilers	7	3,000	
Total		<u>633,950</u>	<u>568,678</u>