

**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)**

Financial Statements

December 31, 2016



**Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
December 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited 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, 2016, 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.

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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Lake Owners' Association as of December 31, 2016, 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.

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INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Blue Lake Owners' Association
Carbondale, CO

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on page 11 are presented for purposes of additional analysis and are 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 12 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.

Report on Summarized Comparative Information

The summarized comparative information presented herein as of and for the year ended December 31, 2015 is derived from the Association's 2015 financial statements, which were reviewed by us and our report thereon, dated April 20, 2016, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
May 16, 2017

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Balance Sheets
December 31, 2016
(With Comparative Totals for December 31, 2015)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
Assets:				
Cash and cash equivalents	107,454	87,887	195,341	199,470
Investments - Certificates of deposit	-	471,719	471,719	420,272
Accounts receivable - Owners (net)	3,989	-	3,989	3,140
Prepaid expenses	2,842	-	2,842	-
Property and equipment, net	270,698	-	270,698	259,895
Due from (to) other fund	(57,875)	57,875	-	-
Total Assets	327,108	617,481	944,589	882,777
Liabilities and Fund Equity:				
Liabilities:				
Accounts payable	1,239	-	1,239	2,903
Deferred assessment revenue	6,002	-	6,002	6,597
Accrued payroll and payroll taxes	7,602	-	7,602	7,430
Deposits	10,005	-	10,005	8,555
Total Liabilities	24,848	-	24,848	25,485
Fund Equity:				
Working capital	59,701	-	59,701	55,423
Fund balances	242,559	617,481	860,040	801,869
Total Fund Equity	302,260	617,481	919,741	857,292
Total Liabilities and Fund Equity	327,108	617,481	944,589	882,777

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

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Statements of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
Revenues:				
Common assessments	273,966	107,310	381,276	373,800
Trash service assessments	61,550	-	61,550	56,000
Rental income - Office and community center	52,280	-	52,280	52,162
Rental income - Storage lots	19,712	-	19,712	19,561
Finance charges and fines	(1,193)	-	(1,193)	(1,207)
Interest income	1	2,466	2,467	2,679
	<u>406,316</u>	<u>109,776</u>	<u>516,092</u>	<u>502,995</u>
Total Revenues				
Expenses:				
Payroll and benefits	164,064	-	164,064	158,546
Utilities	75,480	-	75,480	72,680
Depreciation	18,766	-	18,766	17,898
Insurance	21,911	-	21,911	25,959
Professional fees	5,835	-	5,835	13,994
Irrigation	9,706	-	9,706	10,013
Interest	1	-	1	9
Income tax expense	1,449	-	1,449	3,000
Grounds maintenance	72,759	-	72,759	73,826
Office expense	4,407	-	4,407	4,631
Repairs and maintenance	16,972	-	16,972	12,229
Other	5,598	-	5,598	9,039
Replacement Fund expenses	-	60,973	60,973	35,878
	<u>396,948</u>	<u>60,973</u>	<u>457,921</u>	<u>437,702</u>
Total Expenses				
Excess (Deficiency) of Revenues Over Expenses	9,368	48,803	58,171	65,293
Beginning Fund Balances	<u>233,191</u>	<u>568,678</u>	<u>801,869</u>	<u>736,576</u>
Ending Fund Balances	<u><u>242,559</u></u>	<u><u>617,481</u></u>	<u><u>860,040</u></u>	<u><u>801,869</u></u>

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

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Statements of Cash Flows
For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	2016			2015
	Operating Fund	Replacement Fund	Total	Total
Cash Flows From Operating Activities:				
Cash received from owners	352,591	107,310	459,901	457,049
Cash received from investment income	1	181	182	155
Other cash receipts	53,730	-	53,730	56,897
Cash payments for goods and services	(217,174)	(60,973)	(278,147)	(256,423)
Cash paid for employees	(163,892)	-	(163,892)	(158,160)
Income taxes paid	(1,449)	-	(1,449)	(3,000)
Transfer from (to) other funds, net	29,590	(29,590)	-	-
Net Cash Provided by Operating Activities	53,397	16,928	70,325	96,518
Cash Flows From Investing Activities:				
Proceeds on sale/redemption of investments	-	50,838	50,838	-
Cash paid to purchase investments	-	(100,000)	(100,000)	-
Cash paid to purchase fixed assets	(29,570)	-	(29,570)	(23,307)
Net Cash (Used) by Investing Activities	(29,570)	(49,162)	(78,732)	(23,307)
Cash Flows From Financing Activities:				
Net cash received from working capital deposits	4,278	-	4,278	2,311
Net Cash (Used) by Financing Activities	4,278	-	4,278	2,311
Net Increase (Decrease) in Cash and Cash Equivalents	28,105	(32,234)	(4,129)	75,522
Beginning Cash and Cash Equivalents	79,349	120,121	199,470	123,948
Ending Cash and Cash Equivalents	107,454	87,887	195,341	199,470
Ending Cash and Cash Equivalents is Comprised of:				
Cash and cash equivalents	107,454	87,887	195,341	199,470
Total Ending Cash and Cash Equivalents	107,454	87,887	195,341	199,470
Reconciliation of Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided by Operating Activities:				
Excess (deficiency) of revenues over expenses	9,368	48,803	58,171	65,293
Adjustments to reconcile:				
Depreciation	18,766	-	18,766	17,898
(Increase) decrease - Accrued interest on certificates of deposit	-	(2,285)	(2,285)	(2,522)
(Increase) decrease - Accounts receivable - Owners	(849)	-	(849)	6,726
(Increase) decrease - Accounts receivable - Other	-	-	-	3,835
(Increase) decrease - Prepaid expense	(2,842)	-	(2,842)	-
Increase (decrease) - Accounts payable	(1,663)	-	(1,663)	1,833
Increase (decrease) - Deferred revenue	(595)	-	(595)	2,169
Increase (decrease) - Accrued payroll and payroll taxes	172	-	172	386
Increase (decrease) - Deposits	1,450	-	1,450	900
Transfer from (to) other fund	29,590	(29,590)	-	-
Total Adjustments	44,029	(31,875)	12,154	31,225
Net Cash Provided by Operating Activities	53,397	16,928	70,325	96,518

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

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2016

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 assets are 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, 2016
(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, 2016 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 2013.

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, 2016
(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, 2015, from which the comparative totals were derived.

N. Subsequent Events

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

3. Investments

Certificates of deposit, maturing within one to five years, bearing interest at 0.30% - 1.36% per annum	<u>\$ 471,719</u>
Total Investments	<u><u>\$ 471,719</u></u>

4. Property and Equipment

Buildings and improvements	\$ 550,391
Equipment and vehicles	<u>122,915</u>
At cost	673,306
Less: Accumulated depreciation	<u>(402,608)</u>
Net Book Value	<u><u>\$ 270,698</u></u>

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2016
(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 community center was purchased in 1994 for \$324,452. The office building was purchased in 1995 for \$128,000. As of December 31, 2016, accumulated depreciation for the community center and office building are \$185,787 and \$69,332, respectively. The Association received \$52,280 from these leases during the year ended December 31, 2016. The following is a schedule of future minimum rentals under the leases at December 31, 2016

	Community		Total
	Office Lease #1	Center Lease	
2017	4,978	37,200	42,178
2018	5,077	37,200	42,277
2019	849	37,200	38,049
2020	-	37,200	37,200
2021	-	37,200	37,200
2022	-	37,200	37,200
2023	-	37,200	37,200
2024	-	37,200	37,200
2025	-	21,700	21,700
Total Minimum Lease Payments	\$ 10,904	319,300	330,204

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, 2019.

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.

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Notes to the Financial Statements
December 31, 2016
(Continued)

6. Replacement Funds and Reserve for Future Major Repairs and Replacements (continued)

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, 2016, the Association levied \$107,310 of Replacement Fund assessments.

7. Concentration of Credit Risk

The Association has cash balances in financial institutions which are not covered by insurance provided by the federal government. The Federal Deposit Insurance Corporation (the "FDIC") insures single depositors up to \$250,000. The Association has bank accounts with Bank of Colorado which exceed coverage by \$57,612 at December 31, 2016.

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, 2016
(With Comparative Actual Amounts for the Year Ended December 31, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Budget (Unaudited)</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>	<u>Actual</u>
Revenues:				
Common assessments - Operating	273,966	273,966	-	266,490
Common assessments - Replacement	107,310	107,310	-	107,310
Trash service assessments	59,541	61,550	2,009	56,000
Rental income - Office and community center	52,200	52,280	80	52,162
Rental income - Storage lots	19,375	19,712	337	19,561
Finance charges and fines	(1,034)	(1,193)	(159)	(1,207)
Interest income - Operating	33	1	(32)	20
Interest income - Replacement	2,300	2,466	166	2,659
Total Revenues	<u>513,691</u>	<u>516,092</u>	<u>2,401</u>	<u>502,995</u>
Expenses:				
Operating Fund:				
Payroll and benefits	161,173	164,064	(2,891)	158,546
Utilities	80,171	75,480	4,691	72,680
Depreciation	20,000	18,766	1,234	17,898
Insurance	19,062	21,911	(2,849)	25,959
Professional fees	6,330	5,835	495	13,994
Irrigation	8,285	9,706	(1,421)	10,013
Interest	-	1	(1)	9
Income tax expense	4,500	1,449	3,051	3,000
Grounds maintenance	69,380	72,759	(3,379)	73,826
Office expense	5,050	4,407	643	4,631
Repairs and maintenance	13,400	16,972	(3,572)	12,229
Other	6,160	5,598	562	9,039
Subtotal - Operating Fund	<u>393,511</u>	<u>396,948</u>	<u>(3,437)</u>	<u>401,824</u>
Replacement Fund:				
Window replacement	7,529	7,925	(396)	19,948
Sidewalks	-	-	-	4,545
Fencing	-	222	(222)	-
Preschool roof	9,000	21,645	(12,645)	-
Sign refurbishing	-	-	-	1,754
Office & preschool exterior staining	12,000	11,650	350	-
Pavement replacement	15,000	15,018	(18)	-
Tree removal	8,000	5,916	2,084	-
Drinking fountain replacement	1,500	1,637	(137)	-
Ditch repair	3,300	-	3,300	-
Grills/volleyball post replacement	1,400	1,225	175	-
Seal coat & crack filling	32,000	25,115	6,885	-
Entry Gate - Motors	-	190	(190)	6,418
Landscaping	-	-	-	23,161
Subtotal - Replacement Fund	<u>89,729</u>	<u>90,543</u>	<u>(814)</u>	<u>55,826</u>
Total Expenses	<u>483,240</u>	<u>487,491</u>	<u>(4,251)</u>	<u>457,650</u>
Excess of Revenues Over Expenses (Budget Basis)	<u>30,451</u>	28,601	<u>(1,850)</u>	45,345
Reconciliation to GAAP Basis				
Capitalized Assets	-	29,570	-	19,948
Excess of Revenues Over Expenses (GAAP Basis)	-	<u>58,171</u>	-	<u>65,293</u>

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

Blue Lake Owners' Association
(A Colorado Non-Profit Corporation)
Schedule of Future Major Repairs and Replacements
December 31, 2016
(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 2016</u>
Concrete and asphalt	0-5	192,050	
Maintenance equipment	0-13	104,000	
Recreation equipment	0-21	112,850	
Fencing	2-8	79,500	
Doors and windows	0	48,000	
Siding	0	16,950	
Irrigation system	3	15,200	
Street lights and gate operators	1-15	42,450	
Mailboxes	8	15,000	
Office interiors and equipment	1-8	18,000	
Landscaping and bridge	6-13	26,100	
Boilers	8	3,000	
Signage	2	3,000	
Gutters/downspouts	3	5,950	
Total		<u>682,050</u>	<u>617,481</u>

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