
Grass Mesa Homeowners Association
Financial Statements and Report of
Independent Certified Public Accountants
December 31, 2015

Grass Mesa Homeowners Association
Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Balance Sheet	3
Statement of Revenues, Expenditure and Change in Fund Balance	4
Statement of Cash Flows	5
Notes to the Financial Statements	6

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Grass Mesa Homeowners Association

We have audited the accompanying financial statements of Grass Mesa Homeowners Association, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

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.

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 from material misstatement.

An audit involves 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 purpose 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 have 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 Grass Mesa Homeowners Association as of December 31, 2015, 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted Supplemental Information on Future Major Repairs and Replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Blair and Associates, P.C.

Cedaredge, Colorado
May 10, 2016

Grass Mesa Homeowners Association
Balance Sheet
December 31, 2015

	Operating Fund	Road Maintenance Fund	Total
Assets			
Cash and cash equivalents	\$ 52,689	\$ 190,217	\$ 242,906
Accounts receivable assessments	32,798	-	32,798
Settlement agreement receivable	-	70,000	70,000
Property and Equipment	1,387	-	1,387
Total assets	<u><u>\$ 86,874</u></u>	<u><u>\$ 260,217</u></u>	<u><u>\$ 347,091</u></u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 3,317	\$ -	\$ 3,317
Deferred revenue	-	70,000	70,000
Total liabilities	<u><u>3,317</u></u>	<u><u>70,000</u></u>	<u><u>73,317</u></u>
Fund balance	<u><u>83,557</u></u>	<u><u>190,217</u></u>	<u><u>273,774</u></u>
Total liabilities and fund balance	<u><u>\$ 86,874</u></u>	<u><u>\$ 260,217</u></u>	<u><u>\$ 347,091</u></u>

See accompanying notes.

Grass Mesa Homeowners Association
Statement of Revenue, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2015

	Operating	Road	
	Fund	Maintenance	
	Fund	Fund	Total
Revenue			
Regular assessment	\$ 54,800	\$ -	\$ 54,800
Encana workover Rig income	10,500	-	10,500
Interest income	-	174	174
Settlement income	-	45,000	45,000
Late fees	3,050	-	3,050
Total revenue	<u>68,350</u>	<u>45,174</u>	<u>113,524</u>
Expenses			
Legal and accounting	8,125	-	8,125
Management fees	10,000	-	10,000
Insurance	625	-	625
Director fees	684	-	684
Equipment rental	1,847	-	1,847
Snow plowing and sanding	19,381	-	19,381
Road repairs and maintenance	24,261	-	24,261
Equipment repairs and maintenance	2,289	-	2,289
Sign maintenance	771	-	771
Office expense	597	10	607
Miscellaneous	17	-	17
Depreciation expense	462	-	462
Total expenses	<u>69,059</u>	<u>10</u>	<u>69,069</u>
Excess revenue over expenses	(709)	45,164	44,455
Fund balance - beginning of year	<u>84,266</u>	<u>145,053</u>	<u>229,319</u>
Fund balance (deficit) - end of year	<u><u>\$ 83,557</u></u>	<u><u>\$ 190,217</u></u>	<u><u>\$ 273,774</u></u>

See accompanying notes.

**Grass Homeowners Association
Statement of Cash Flows
For the Year Ended December 31, 2015**

	Operating Fund	Road Maintenance Fund	Total
Cash flows from operating activities	\$ (709)	\$ 45,164	\$ 44,455
Excess revenue over expenses			
Adjustments to reconcile excess revenue over expenses to net cash provided by operating activities			
Depreciation expense	462	-	462
(Increase) decrease in accounts receivable	(809)	-	(809)
Increase (decrease) in accounts payable	2,610	-	2,610
Net cash provided by operating activities	<u>1,554</u>	<u>45,164</u>	<u>1,801</u>
Net increase in cash and cash equivalents	1,554	45,164	46,718
Cash and cash equivalents - beginning of year	<u>51,135</u>	<u>145,053</u>	<u>196,188</u>
Cash and cash equivalents - end of year	<u><u>\$ 52,689</u></u>	<u><u>\$ 190,217</u></u>	<u><u>\$ 242,906</u></u>

See accompanying notes.

Grass Mesa Homeowners Association
Notes to the Financial Statements
December 31, 2015

Note 1 - Summary of Significant Accounting Policies

Grass Mesa Homeowners Association (the Association), a Colorado nonprofit corporation, is a homeowners' association located in Rifle, Colorado. The Association was incorporated on June 13, 1983, to provide for the community's common area of the association which consists primarily of road ways. The Association has no employees. The Association contracts with a management agency for all services (see Note 4).

Basis of Presentation

Association's financial statements are presented in accordance with the Audit and Accounting Guide for Common Interest Realty Associations published by the American Institute of Certified Public Accountants. Association follows the accrual method of accounting whereby assessments and revenues are recorded when due and expenses are recorded when incurred.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association.

Road Maintenance Fund – This fund is used to accumulate financial resources designated for future major repairs, replacements and acquisitions.

Cash and Cash Equivalents

Cash and cash equivalents for the statement of cash flows consist of cash in bank, cash on hand and securities with maturities of three months or less. All such balances are covered under the Federal Deposit Insurance Corporation insurance limits.

Income Taxes

Homeowner associations may elect to be taxed as regular corporations or as homeowners' associations. The association has elected to be taxed as a homeowner association. Under that election, the Association is generally taxed only on non-function income, such as interest earnings, at a flat rate of thirty percent. The appropriated IRS elections have been made to exclude function income from taxation. Income tax expense for the year ended December 31, 2015 was \$ -0-. Association is no longer subject to U.S. Federal or State examinations by tax authorities for the years before 2009.

Grass Mesa Homeowners Association
Notes to the Financial Statements
December 31, 2015

Note 1 - Summary of Significant Accounting Policies – (continued)

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 180 days or more delinquent. The Association considers all accounts receivable at December 31, 2015 to be fully collectible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Homeowners' Fees and Economic Dependence

As of December 31, 2015, all of the 83 lots, which are lots consisting of approximately 40 acres, are being assessed. All lots pay the full assessment of \$ 150.00 per lot per quarter, except for 5 lots which pay \$400.00 per quarter.

Note 3 - Future Major Repairs and Replacements

The Association's governing documents allow funds to be accumulated for future major repairs and replacements including additions, alterations or improvements to the roads. The Association has not conducted a study to estimate the remaining useful lives and the replacement costs of the roads.

The Association is funding for such major repairs and replacements over the estimated useful lives of the roads based on a settlement agreement with Encana Oil & Gas (USA) of which a total settlement fee of \$260,000 will be accumulated in the road maintenance fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the road maintenance fund may not be adequate to meet future needs.

If additional funds are needed, however, the Association has the right to increase regular assessments, to levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 4 - Related Party Transactions

The Association has entered into a management agreement with the Elk Peaks Consulting Group, Ltd to manage the day-to-day operations of the Association under the direction of the Association's Board of Directors, which started in 2016. But for the year ended December 31, 2015, management and accounting fees were paid to Rebecca Brock of \$ 10,000 for general management of the entire Association for 2015.

Grass Mesa Homeowners Association
Notes to the Financial Statements
December 31, 2015

Note 5 - Fair Values of Financial Instruments

In accordance with the Fair Value Measurements of FASB Accounting Standards Codification (ASC) 820-10, assets and liabilities are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobserved assumptions reflect Association's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

In accordance with the Fair Value Measurements and Disclosures topic of the ASC, Association bases fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon Association's estimates, are often calculated based on current pricing policy, the economic and competitive environment, the characteristics of the asset or liability and other such factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of current or future values.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value:

Cash and cash equivalents, accounts receivable, accounts payable. The carrying amount approximates fair value due to the short maturity of these instruments.

Note 6 - Settlement agreement receivable

On December 19th of 2013, an agreement was reached between Grass Mesa Homeowners Association and Encana Oil & Gas (USA) regarding the condition and maintenance of the shared roads. Encana Oil & Gas agreed to pay the Association a total amount of \$260,000 over a period of five years for their costs of those roads. The amount of \$70,000 is still owed at December 31, 2015.

Grass Mesa Homeowners Association
Notes to the Financial Statements
December 31, 2015

Note 7 - Property and Equipment

In 2012, the Association purchased a road drag which costs \$3,237, which is being depreciated over a seven year period at \$462 per year. Total value of road drag at December 31, 2015 is \$1,387.

Note 8 - Subsequent Events

The Association has evaluated subsequent events through May 10, 2016, the date at which the financial statements were available to be issued. No subsequent events were noted.