

**TRAVERSE MOUNTAIN MASTER
OWNERS ASSOCIATION, INC.**

AUDIT OF FINANCIAL STATEMENTS

December 31, 2009

together with

REPORT OF INDEPENDENT AUDITORS

TRAVERSE MOUNTAIN MASTER OWNERS ASSOCIATION, INC.

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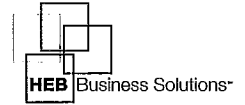
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HEB Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS



To the Board of Directors and Members
Traverse Mountain Master Owners Association, Inc.

We have audited the accompanying balance sheet of Traverse Mountain Master Owners Association, Inc. (the Association), as of December 31, 2009 and the related statements of revenue, expenses, and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended December 31, 2008 is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which we expressed an unqualified opinion in our report dated December 30, 2009.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Traverse Mountain Master Owners Association, Inc. as of December 31, 2009 and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note B, the Associations' board last performed a capital reserve study in 2007, to estimate the remaining useful lives and future replacement costs of the components of assets owned by the Association. Because a study has not been updated since that time, information concerning estimated future costs of major repairs and replacements that will be required in the future is not presented. Although the American Institute of Certified Public Accountants requires the information to supplement the basic financial statements, the information is not required to be a part of the basic financial statements.



Salt Lake City, Utah
October 26, 2010

Traverse Mountain Master Owners Association, Inc.

Balance Sheet

As of December 31, 2009

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ASSETS

	2009			2008
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Cash and cash equivalents	\$ 192,960	\$ 6,701	\$ 199,661	\$ 12,870
Receivable from members, net	20,146	-	20,146	16,697
Prepaid and other assets	322	-	322	322
Interfund receivable (payable)	-	-	-	-
Common property, net	48,398	-	48,398	45,760
Total Assets	\$ 261,826	\$ 6,701	\$ 268,527	\$ 75,649

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 75	\$ -	\$ 75	\$ 11,421
Deposits payable	49,325	-	49,325	4,200
Deferred revenue	25,333	-	25,333	22,282
Notes payable	178,747	-	178,747	215,956
Total Liabilities	253,480	-	253,480	253,859
Fund Balances	8,346	6,701	15,047	(178,210)
Total Liabilities and Fund Balances	\$ 261,826	\$ 6,701	\$ 268,527	\$ 75,649

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

Traverse Mountain Master Owners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances

For the Year Ended December 31, 2009

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	2009			2008
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Revenues				
Member assessments	\$ 819,712	\$ -	\$ 819,712	\$ 723,013
Late fees	150,962	-	150,962	69,587
Set up fees	59,151	-	59,151	44,287
Community enhancement fees	19,799	6,601	26,400	7,200
Miscellaneous income	1,074	-	1,074	839
Violation fee income	16,140	-	16,140	10,615
Interest income	310	-	310	39
Total Revenues	<u>1,067,148</u>	<u>6,601</u>	<u>1,073,749</u>	<u>855,580</u>
Expenses				
Payroll	330,670	-	330,670	391,727
Repairs and maintenance	171,093	-	171,093	130,618
Bad debt expense	226,568	-	226,568	261,161
Administrative	34,361	-	34,361	36,391
Common area expenses	40,415	-	40,415	32,418
Insurance	15,029	-	15,029	20,552
Professional fees	4,424	-	4,424	20,097
Rent	20,189	-	20,189	12,000
Travel and training	8,152	-	8,152	9,953
Vehicle	11,645	-	11,645	9,436
Miscellaneous	5,830	-	5,830	6,738
Security	-	-	-	2,652
Depreciation	12,116	-	12,116	10,387
Total Expenses	<u>880,492</u>	<u>-</u>	<u>880,492</u>	<u>944,130</u>
Excess (deficiency) of revenues over expenses	186,656	6,601	193,257	(88,550)
Beginning Fund Balances	<u>(178,310)</u>	<u>100</u>	<u>(178,210)</u>	<u>(89,660)</u>
Ending Fund Balances	<u>\$ 8,346</u>	<u>\$ 6,701</u>	<u>\$ 15,047</u>	<u>\$ (178,210)</u>

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

Traverse Mountain Master Owners Association, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2009

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	2009			2008
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Operating Activities				
Excess (deficiency) of revenues over expenses	\$ 186,656	\$ 6,601	\$ 193,257	(88,550)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash and cash equivalents provided by operating activities:				
Depreciation	12,116	-	12,116	10,387
(Increase) decrease in assets:				
Assessments receivable	(3,449)	-	(3,449)	141,317
Interfund payable/receivable	-	-	-	-
(Decrease) increase in liabilities:				
Accounts payable	(11,346)	-	(11,346)	(24,124)
Deposits payable	45,125	-	45,125	4,200
Deferred revenue	3,051	-	3,051	(2,498)
Net cash provided by operating activities:	<u>232,153</u>	<u>6,601</u>	<u>238,754</u>	<u>40,732</u>
Investing Activities				
Payments to purchase common property	<u>(14,754)</u>	<u>-</u>	<u>(14,754)</u>	<u>(38,419)</u>
Net cash used for investing activities	<u>(14,754)</u>	<u>-</u>	<u>(14,754)</u>	<u>(38,419)</u>

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

Traverse Mountain Master Owners Association, Inc.

Statement of Cash Flows (Continued)

For the Year Ended December 31, 2009

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	2009			2008
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Financing Activities				
Net change on notes payable	<u>(37,209)</u>	<u>-</u>	<u>(37,209)</u>	<u>1,116</u>
Net cash (used for) provided by financing activities	<u>(37,209)</u>	<u>-</u>	<u>(37,209)</u>	<u>1,116</u>
Net increase in cash and cash equivalents	180,190	6,601	186,791	3,429
Cash at beginning of year	<u>12,770</u>	<u>100</u>	<u>12,870</u>	<u>9,441</u>
Cash at end of year	<u>\$ 192,960</u>	<u>\$ 6,701</u>	<u>\$ 199,661</u>	<u>\$ 12,870</u>

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

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Business Activity

Traverse Mountain Master Owners Association, Inc. (the Association) was organized in 2002 as a not-for-profit corporation to function as the master property owners association for a 2,771 acre planned community located in Lehi, Utah. At full development, it is anticipated that the Association will collectively govern several neighborhoods, and subdivisions, condominium developments, townhouse developments, planned unit developments, and certain recreational areas. As of December 31, 2009, the Association consisted of 1,444 units.

2. Fund Accounting

The Association's governing documents provide certain guidelines for conducting 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:

- a) *Operating Fund* – used to account for financial resources available for the general operations of the Association.
- b) *Major Repairs and Replacements Fund* – used to accumulate financial resources designated for future major repairs and replacements of common property.

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Basic Member Assessments

Each year a basic member assessment is determined based on advance estimates of the Association's expenses for maintenance and operation of common areas. Such estimated expenses may include expenses of management, property taxes, insurance premiums, repairs and maintenance, wages, utilities, legal and accounting fees, deficits remaining from previous periods (if any), creation of an adequate contingency reserve, creation of an adequate reserve fund, and any other expenses and liabilities allowed by the governing documents.

5. Special Member Assessments

In addition to the basic member assessment, the Association may levy special assessments at any time upon the affirmative vote of a majority of the neighborhood representatives. These assessments may be used for construction, reconstruction, repair or replacement and capital improvements, or other extraordinary expenses incurred by the Association. For the year ended December 31, 2009, there were no special assessments that were assessed the Association's members.

6. Community Enhancement Fees

The Association charges a community enhancement fee for all unit ownership transfers. These assessments may be used for construction, reconstruction, repair or replacement and capital improvements, or other extraordinary expenses incurred by the Association.

7. Fair Value of Financial Instruments

The Association's financial instruments consist of cash, receivables, prepaids and other receivables, accruals, and notes payable. The carrying amount of cash, receivables, prepaids and other receivables, payables and accruals approximates fair value because of the short-term nature of these items. The carrying amount of notes payable approximates fair value as the payables bear interest at market rates.

8. Common Property

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the MOA's financial statements. Those properties are owned by the individual members in common and not by the MOA. The MOA's policy for recognizing common property as assets in its balance sheet is to recognize the cost of common personal property, which it owns in excess of \$3,500. Maintenance, repairs, and renewals, which neither

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Common Property (Continued)

materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Capitalized common property purchased with Reserve Fund monies is shown as a transfer from the Reserve Fund to the Operating Fund in the statement of revenues, expenses and changes in fund balances. This property is recorded as an asset on the Operating Fund balance sheet and is depreciated over its estimated useful life on a straight-line basis. The MOA is responsible for the preservation and maintenance of common property.

9. Cash and Cash Equivalents

The MOA considers all short-term instruments with an original maturity of three months or less when purchased to be cash equivalents.

10. Receivable from Members and Allowance for Bad Debt

As of December 31, 2009, the Association had recorded \$280,146 in assessments receivable for which an allowance for uncollectible accounts of \$260,000 has been established. Assessments receivable represent delinquent assessments from homeowners. The Association's policy is to levy against any assessment account which is not paid in full as of thirty days from its due date and a late fee in the amount of \$10 is assessed. Each additional 30 thirty days delinquency is assessed a late fee in the amount of \$40. The Association also retains legal counsel and places liens on the properties of members whose assessments are one hundred-ten days or more delinquent. The Association charges off uncollectible accounts when management estimates no possibility of collecting the related receivable.

As of the report release date (October 26, 2010), approximately 100 accounts had been turned over to an attorney for collection. Due to the high number of foreclosures and potential foreclosures, the probability of a favorable outcome from collection efforts cannot be determined. In the event that accounts are collected, income will be recognized in the period collected.

11. Income Taxes

As of December 31, 2009, the Association has elected to file its income tax return as a homeowners' association in accordance with Internal Revenue Service Code section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenues from uniform assessments from members.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Income Taxes (Continued)

The Association utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are provided based on the difference between the financial statements and tax bases of assets and liabilities as measured by the currently enacted tax rates in effect for the years in which these differences are expected to reverse. Deferred tax expense or benefit is the result of changes in deferred tax assets and liabilities. Because there is no material difference between the financial accounting and tax bases of the Association's assets and liabilities, the Association has not recorded any deferred tax assets or liabilities.

12. Deferred Revenue

Assessments are billed to the members in advance of the period in which the expenses are to be incurred. Those assessments received in advance of the period of expense are shown in the accompanying financial statements as deferred revenue. Assessments are recognized as revenue as they are earned throughout the year. As of December 31, 2009, deferred revenue totaled \$25,333.

13. Financial Statement Presentation

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America and with general practices in the Common Interest Realty Association industry.

14. Concentration of Credit Risk

The Association maintains cash balances at one financial institution. The Federal Deposit Insurance Corporation (FDIC) insures accounts at each bank for up to \$250,000. As of December 31, 2009, the Association had no balances over the FDIC insured limits. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

15. Comparative Totals for 2008

The 2008 total columns are for comparison only. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America; accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE B – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. The purpose of annual assessments is to provide the working capital necessary to meet the Association's annual operating expenses and to maintain a reserve for repair or replacement of the general common elements of the Association. Accumulated funds are held in separate bank accounts and generally are not available for expenditures for normal operations.

The Association's board completed an internal reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The study was completed with a site visit and was issued in 2007. The reserve study has not been updated for the year ended December 31, 2009. Although the reserve study has not been updated, the Association has budgeted \$7,200 in fiscal 2010 for reserve contributions. Actual expenditures and interest income may vary from the current estimates and the variations may be material. Therefore, amounts accumulated in the Reserve 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 to increase regular assessments or delay major repairs and replacements until funds are available.

NOTE C – COMMON PROPERTY

Common property at December 31, 2009 consists of equipment and furnishings owned by the Association for the use and benefit of the Association's members. Equipment and furnishings are depreciated on a straight-line basis over periods of three to twenty years.

Equipment and furnishings	\$	75,333
Accumulated depreciation		(26,935)
	\$	<u>48,398</u>

Depreciation expense for the year ended December 31, 2009 was \$12,116.

NOTE D – NOTES PAYABLE

Notes payable at December 31, 2009 consisted of \$178,747 owed to the Developer of the Association. This note payable is due at an interest rate of prime plus 1 percent (4.25 percent at December 31, 2009), is secured by the common property of the Association and is due upon demand by the Developer.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2009

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NOTE E – SUBSEQUENT EVENTS

Subsequent to December 31, 2009, the Association's Board of Director's approved a transfer of excess operating fund cash of \$45,000 to the reserve fund.

During the year then ended, the Master Association began managing one of its sub-associations, Winter Haven at Traverse Mountain, LLC. On January 11, 2010, the Master Association was assigned the rights, title, interest, claim and benefit for Winter Haven at Traverse Mountain, Inc. and has managed the sub-association through the report release date of October 26, 2010.

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through October 26, 2010, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 26, 2010, have been incorporated into these financial statements herein.