

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

**AUDIT OF FINANCIAL STATEMENTS**

December 31, 2010

together with

**REPORT OF INDEPENDENT AUDITORS**

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

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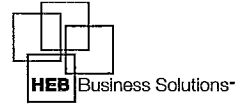
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**REPORT OF INDEPENDENT AUDITORS**



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, 2010 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, 2009 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 October 26, 2010.

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, 2010 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.

**To the Board of Trustees and members of  
Traverse Mountain Master Owners Association, Inc.  
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Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 13 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

*Huber, Erickson & Bowman, LLC*

Huber, Erickson & Bowman, LLC  
Salt Lake City, Utah  
November 21, 2011

# Traverse Mountain Master Owners Association, Inc.

## Balance Sheet

As of December 31, 2010

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### ASSETS

	2010			2009
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Cash and cash equivalents	\$ 244,796	\$ 77,878	\$ 322,674	\$ 150,336
Restricted cash	90,225	-	90,225	49,325
Certificate of deposit	20,089	-	20,089	-
Receivable from members, net	38,677	-	38,677	20,146
Prepaid and other assets	-	-	-	322
Interfund receivable (payable)	33,049	(33,049)	-	-
Common property, net	33,331	-	33,331	48,398
<b>Total Assets</b>	<b>\$ 460,167</b>	<b>\$ 44,829</b>	<b>\$ 504,996</b>	<b>\$ 268,527</b>

### LIABILITIES AND FUND BALANCES

#### Liabilities

Accounts payable	\$ 2,857	\$ -	\$ 2,857	\$ 75
Deposits payable	90,225	-	90,225	49,325
Deferred revenue	30,798	3,925	34,723	25,333
Notes payable	105,700	-	105,700	178,747
<b>Total Liabilities</b>	<b>229,580</b>	<b>3,925</b>	<b>233,505</b>	<b>253,480</b>
<b>Fund Balances</b>	<b>230,587</b>	<b>40,904</b>	<b>271,491</b>	<b>15,047</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 460,167</b>	<b>\$ 44,829</b>	<b>\$ 504,996</b>	<b>\$ 268,527</b>

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, 2010

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	2010			2009
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
<b>Revenues</b>				
Member assessments, net	\$ 781,405	\$ 76,000	\$ 857,405	819,712
Late fees	69,818	-	69,818	150,962
Set up fees	47,610	-	47,610	59,151
Community enhancement fees	35,100	11,700	46,800	26,400
Miscellaneous income	3,914	-	3,914	1,074
Violation fee income	7,235	-	7,235	16,140
Interest income	1,055	-	1,055	310
<b>Total Revenues</b>	<u>946,137</u>	<u>87,700</u>	<u>1,033,837</u>	<u>1,073,749</u>
<b>Expenses</b>				
Payroll	317,184	-	317,184	330,670
Repairs and maintenance	103,394	120,097	223,491	171,093
Bad debt expense	47,856	-	47,856	226,568
Administrative	31,352	-	31,352	34,361
Common area expenses	59,849	-	59,849	40,415
Insurance	13,994	-	13,994	15,029
Professional fees	22,473	-	22,473	4,424
Rent	21,275	-	21,275	20,189
Travel and training	7,027	-	7,027	8,152
Vehicle	13,867	-	13,867	11,645
Miscellaneous	3,958	-	3,958	5,830
Security	-	-	-	-
Depreciation	15,067	-	15,067	12,116
<b>Total Expenses</b>	<u>657,296</u>	<u>120,097</u>	<u>777,393</u>	<u>880,492</u>
Excess (deficiency) of revenues over expenses	288,841	(32,397)	256,444	193,257
Interfund transfers	(45,000)	45,000	-	-
<b>Beginning Fund Balances</b>	<u>(13,254)</u>	<u>28,301</u>	<u>15,047</u>	<u>(178,210)</u>
<b>Ending Fund Balances</b>	<u>\$ 230,587</u>	<u>\$ 40,904</u>	<u>\$ 271,491</u>	<u>\$ 15,047</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, 2010

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	2010			2009
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
<b>Operating Activities</b>				
Excess (deficiency) of revenues over expenses	\$ 288,841	\$ (32,397)	\$ 256,444	193,257
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash and cash equivalents provided by operating activities:				
Depreciation	15,067	-	15,067	12,116
(Increase) decrease in assets:				
Assessments receivable	(18,531)	-	(18,531)	(3,449)
Interfund payable/receivable	(43,995)	43,995	-	-
Prepays	233	-	233	-
(Decrease) increase in liabilities:				
Accounts payable	2,782	-	2,782	(11,346)
Deposits payable	40,900	-	40,900	45,125
Deferred revenue	8,031	1,359	9,390	3,051
Net cash provided by operating activities:	<u>293,328</u>	<u>12,957</u>	<u>306,285</u>	<u>238,754</u>
<b>Investing Activities</b>				
Net change in certificates of deposit	(20,000)	-	(20,000)	-
Payments to purchase common property	-	-	-	(14,754)
Net cash used for investing activities	<u>(20,000)</u>	<u>-</u>	<u>(20,000)</u>	<u>(14,754)</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, 2010

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	2010			2009
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
<b>Financing Activities</b>				
Net change on notes payable	(73,047)	-	(73,047)	(37,209)
Interfund transfers	(45,000)	45,000	-	-
Net cash (used for) provided by financing activities	(118,047)	45,000	(73,047)	(37,209)
Net increase in cash and cash equivalents	155,281	57,957	213,238	186,791
Cash at beginning of year	179,740	19,921	199,661	12,870
Cash at end of year	<u>\$ 335,021</u>	<u>\$ 77,878</u>	<u>\$ 412,899</u>	<u>\$ 199,661</u>
Cash and cash equivalents	244,796	77,878	322,674	150,336
Restricted cash	90,225	-	90,225	49,325
	<u>\$ 335,021</u>	<u>\$ 77,878</u>	<u>\$ 412,899</u>	<u>\$ 199,661</u>

### Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income taxes	\$	-	\$	-
Interest	\$	-	\$	-

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, 2010

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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, subdivisions, condominium developments, townhouse developments, planned unit developments, and certain recreational areas. As of December 31, 2010, 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) *Reserve 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, 2010

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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, 2010, 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 Association's financial statements. Those properties are owned by the individual members in common and not by the Association. The Association'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.

# Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2010

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## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 8. Common Property (Continued)

Maintenance, repairs, and renewals, which neither 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 Association is responsible for the preservation and maintenance of common property.

### 9. Cash and Cash Equivalents

The Association 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, 2010, the Association had recorded \$243,554 in assessments receivable for which an allowance for uncollectible accounts of \$204,877 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 (November 21, 2011), approximately 75 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, 2010, 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, 2010

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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.

The Association adopted ASC 740-10-25, Income Taxes - Overall-Recognition, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. The Association must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Association did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25. The Association is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2008.

### 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, 2010, deferred revenue totaled \$34,723.

### 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.

# Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2010

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## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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, 2010, the Association had deposits of \$194,355 in excess of 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 2009

The 2009 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, 2009, from which the summarized information was derived.

### 16. Interfund Transactions

The Association has paid some major repairs and replacement expenses with operating fund monies. The Association has also received and deposited in the operating fund, assessments that are designated for the reserve fund. The Association intends to transfer the net amount of \$33,049 to the operating fund and has therefore, reflected this amount as an interfund receivable and payable.

The Association's Board of Director's approved a transfer of \$45,000 from the operating fund to the reserve fund. Thus, the \$45,000 is reflected as a transfer on the statement of revenues, expenses and changes in fund balances.

## 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.

# Traverse Mountain Master Owners Association, Inc.

## Notes to Financial Statements

For the Year Ended December 31, 2010

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### NOTE B – FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

The Association's board authorized HOA Consultants to complete a reserve study in March of 2011, for the period of January 1, 2011 through December 31, 2011, to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacements costs. Funding requirements are based on an annual inflation rate of 3.00 percent and an interest rate of 3.00 percent on amounts funded for future major repairs and replacements. The table included in the unaudited supplemental information on future major repairs and replacements is based on this study.

The Association has budgeted \$97,000 in fiscal 2011 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 – RESTRICTED CASH

The Association collects damage deposits when any new homeowner is required to repair, construct or update any part of the homeowner's property. The deposit amount varies based on the work to be performed. The Association collects the deposit and approves the work to be performed. Upon completion of the work, the Association inspects the surrounding common property for any damage. Upon approval from management, the Association refunds the deposit to the homeowner. These deposits are maintained in a separate bank account and are shown as restricted cash and deposits payable on the balance sheet.

### NOTE D – COMMON PROPERTY

Common property at December 31, 2010 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		(42,002)
	\$	<u>33,331</u>

Depreciation expense for the year ended December 31, 2010 was \$15,067.

# Traverse Mountain Master Owners Association, Inc.

## Notes to Financial Statements

For the Year Ended December 31, 2010

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### NOTE E – NOTES PAYABLE

Notes payable at December 31, 2010 consisted of \$105,700 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, 2010), is secured by the common property of the Association and is due upon demand by the Developer.

### NOTE F – ASSESSMENT DISCOUNTS

During 2010, the Association offered homeowners a monthly discount for allowing the Association to automatically withdraw monthly assessments directly from homeowner bank accounts. These discounts are applied to the operating portion of the monthly assessment. Operating assessment revenues for the year are shown net of related discounts at year end.

Member Operating Assessments	\$	796,311
Direct withdrawal discounts		(14,906)
	\$	<u>781,405</u>

### NOTE G – RECLASSIFICATION

Certain reclassifications have been made to the 2009 financial statements in order to conform to the 2010 financial statement presentation.

### NOTE H – SUBSEQUENT EVENTS

Subsequent to December 31, 2010, the Association's Board of Directors approved a transfer of excess operating fund cash of \$120,000 to the reserve fund.

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through November 21, 2011, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of November 21, 2011, have been incorporated into these financial statements herein.

**SUPPLEMENTARY INFORMATION**

# Traverse Mountain Master Owners Association, Inc.

## Supplementary Information (Unaudited)

For the Year Ended December 31, 2010

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The Association's board authorized HOA Consultants, Inc. to complete a reserve study for the year ended December 31, 2010, to estimate the remaining useful lives and the replacement costs of the components of common property. The study was completed after a site visit and was issued in March of 2011. The estimates were based on estimated replacement costs over the next 30 years. Funding requirements are based on an annual inflation rate of 3.00 percent and an interest rate of 3.00 percent on the amounts funded for future major repairs and replacements.

Components	Estimated remaining useful lives (years)	Estimated replacement costs	2011 funding requirements	Components of fund balance at December 31, 2010
Fencing	2-8	537,588	11,312	12,137
Streets/Street Lights	8-16	1,182,597	25,977	27,875
Recreation/Parks	6-11	274,500	3,870	4,152
Other Misc.	5-6	27,200	2,205	2,366
Mail boxes	4-10	363,000	9,422	10,109
Monuments	15-20	1,065,000	22,238	23,861
		<u>3,449,885</u>	<u>75,024</u>	<u>80,500</u>

The above summary information of future repairs and replacements for the reserve fund was extracted from the unaudited reserve study that was completed in March of 2011, prior to the audit report release date of November 21, 2011. Since the reserve study has not been updated to reflect the results of the audit, the components of fund balance at December 31, 2010 per the reserve study was \$80,500 and the audited fund balance was \$40,904.