

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

AUDIT OF FINANCIAL STATEMENTS

December 31, 2011

together with

REPORT OF INDEPENDENT AUDITORS

TRAVERSE MOUNTAIN MASTER OWNERS ASSOCIATION, INC.

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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, 2011 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, 2010 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 November 21, 2011.

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, 2011 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.

Management has omitted required supplementary information regarding 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.

A handwritten signature in black ink that reads "Huber Erickson & Bowman LLC".

Huber, Erickson & Bowman, LLC
Salt Lake City, Utah
October 19, 2012

Traverse Mountain Master Owners Association, Inc.

Balance Sheet

As of December 31, 2011

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ASSETS

	2011			2010
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Cash and cash equivalents	\$ 116,556	\$ 361,088	\$ 477,644	322,674
Restricted cash	104,095	-	104,095	90,225
Certificate of deposit	20,205	-	20,205	20,089
Receivable from members, net	45,922	-	45,922	38,677
Interfund receivable (payable)	40,595	(40,595)	-	-
Common property, net	18,929	-	18,929	33,331
Total Assets	\$ 346,302	\$ 320,493	\$ 666,795	\$ 504,996

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 15,217	\$ -	\$ 15,217	\$ 2,857
Deposits payable	104,095	-	104,095	90,225
Deferred revenue	31,575	2,430	34,005	34,723
Notes payable	23,587	-	23,587	105,700
Total Liabilities	174,474	2,430	176,904	233,505
Fund Balances	171,828	318,063	489,891	271,491
Total Liabilities and Fund Balances	\$ 346,302	\$ 320,493	\$ 666,795	\$ 504,996

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, 2011

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	2011			2010
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Revenues				
Member assessments, net	\$ 839,537	\$ 97,000	\$ 936,537	857,405
Late fees	44,258	-	44,258	69,818
Set up fees	29,526	-	29,526	47,610
Community enhancement fees	18,450	55,350	73,800	46,800
Miscellaneous income	4,090	-	4,090	3,914
Violation fee income	7,265	-	7,265	7,235
Interest income	1,295	-	1,295	1,055
Total Revenues	<u>944,421</u>	<u>152,350</u>	<u>1,096,771</u>	<u>1,033,837</u>
Expenses				
Payroll	367,630	-	367,630	317,184
Repairs and maintenance	126,061	144,191	270,252	223,491
Bad debt expense	27,001	-	27,001	47,856
Administrative	31,466	-	31,466	31,352
Common area expenses	75,459	-	75,459	59,849
Insurance	16,379	-	16,379	13,994
Professional fees	19,772	-	19,772	22,473
Rent	22,466	-	22,466	21,275
Travel and training	5,570	-	5,570	7,027
Vehicle	18,953	-	18,953	13,867
Miscellaneous	8,239	-	8,239	3,958
Depreciation	15,184	-	15,184	15,067
Total Expenses	<u>734,180</u>	<u>144,191</u>	<u>878,371</u>	<u>777,393</u>
Excess of revenues over expenses	210,241	8,159	218,400	256,444
Interfund transfers	(269,000)	269,000	-	-
Beginning Fund Balances	<u>230,587</u>	<u>40,904</u>	<u>271,491</u>	<u>15,047</u>
Ending Fund Balances	<u>\$ 171,828</u>	<u>\$ 318,063</u>	<u>\$ 489,891</u>	<u>\$ 271,491</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, 2011

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	2011			2010
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Operating Activities				
Excess of revenues over expenses	\$ 210,241	\$ 8,159	\$ 218,400	256,444
Adjustments to reconcile excess of revenues over expenses to net cash and cash equivalents provided by operating activities:				
Depreciation	15,184	-	15,184	15,067
(Increase) decrease in assets:				
Assessments receivable	(7,245)	-	(7,245)	(18,531)
Interfund payable/receivable	(7,546)	7,546	-	-
Prepays	(116)	-	(116)	233
Increase (decrease) in liabilities:				
Accounts payable	12,360	-	12,360	2,782
Deposits payable	13,870	-	13,870	40,900
Deferred revenue	777	(1,495)	(718)	9,390
Net cash provided by operating activities:	<u>237,525</u>	<u>14,210</u>	<u>251,735</u>	<u>306,285</u>
Investing Activities				
Net change in certificates of deposit	-	-	-	(20,000)
Payments to purchase common property	<u>(782)</u>	<u>-</u>	<u>(782)</u>	<u>-</u>
Net cash used for investing activities	<u>(782)</u>	<u>-</u>	<u>(782)</u>	<u>(20,000)</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, 2011

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	2011			2010
	Operating Fund	Reserve Fund	Total	Total for Comparative Purposes Only
Financing Activities				
Net change on notes payable	(82,113)	-	(82,113)	(73,047)
Interfund transfers	(269,000)	269,000	-	-
Net cash (used for) provided by financing activities	(351,113)	269,000	(82,113)	(73,047)
Net (decrease) increase in cash and cash equivalents	(114,370)	283,210	168,840	213,238
Cash at beginning of year	335,021	77,878	412,899	199,661
Cash at end of year	<u>\$ 220,651</u>	<u>\$ 361,088</u>	<u>\$ 581,739</u>	<u>\$ 412,899</u>
Cash and cash equivalents	116,556	361,088	477,644	322,674
Restricted cash	104,095	-	104,095	90,225
	<u>\$ 220,651</u>	<u>\$ 361,088</u>	<u>\$ 581,739</u>	<u>\$ 412,899</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, 2011

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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, 2011, 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, 2011

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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, 2011, 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, 2011

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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, 2011, the Association had recorded \$127,658 in assessments receivable for which an allowance for uncollectible accounts of \$81,736 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.

11. Income Taxes

As of December 31, 2011, the Association has elected to file its income tax return as a homeowners' association in accordance with the internal revenue code. 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, 2011

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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, 2011, deferred revenue totaled \$34,005.

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, 2011, the Association had deposits of \$359,581 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 2010

The 2010 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, 2010, from which the summarized information was derived.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2011

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Interfund Transactions

During 2011, the Association transferred \$269,000 from the operating fund to the reserve fund. This transfer resulted in an over-transfer of \$40,595 to the reserve fund. Accordingly, this amount is reflected as an inter-fund receivable (payable) in the balance sheet. The Association intends to transfer this amount back to the operating fund.

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 authorized HOA Consultants to complete a reserve study in March of 2011, for the period of January 1, 2010 through December 31, 2010, to estimate the remaining useful lives and the replacement costs of the components of common property. The Association's board has not updated the reserve study for the period of January 1, 2011 through December 31, 2011. Accordingly, required supplementary information regarding future major repairs and replacements is not presented. However, the Association has budgeted \$75,000 in fiscal 2012 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.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2011

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NOTE D – COMMON PROPERTY

Common property at December 31, 2011 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	\$	76,115
Accumulated depreciation		(57,186)
	\$	<u>18,929</u>

Depreciation expense for the year ended December 31, 2011 was \$15,184.

NOTE E – NOTES PAYABLE

Notes payable at December 31, 2011 consisted of \$23,587 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, 2011), is secured by the common property of the Association and is due upon demand by the Developer.

NOTE F – ASSESSMENT DISCOUNTS

During 2011, 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	\$	854,648
Direct withdrawal discounts		(15,111)
	\$	<u>839,537</u>

NOTE G – ACCOUNTING FOR UNCERTAIN TAX POSITIONS

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.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2011

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NOTE H – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through October 19, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of October 19, 2012, have been incorporated into these financial statements herein.