



1. Summary of Significant Accounting Policies

Organization and Nature of Operations

Timber Lakes Property Owners Association (the Association) was incorporated in 1979 as a Utah non-profit corporation. The Association is responsible for the operation and maintenance of the common property within a development consisting of 1,537 lots located approximately seven miles east of Heber City, Utah in Lake Creek Canyon.

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.
- Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. As of June 30, 2010, the Association did not have a replacement fund balance.

Membership Rights

Any person or entity who is a recorded owner of a lot within the development that is subject to assessment by the Association is considered to be a member of the Association. Members are entitled to one vote for each lot owned.

Use of Estimates

The preparation of the balance sheet in conformity with accounting principles generally accepted in the United States of America 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 balance sheet. Actual amounts could differ from those estimates.

Cash Equivalents

The Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. As of June 30, 2010, the Association did not have any cash equivalents.



1. Summary of Significant Accounting Policies
Continued

Concentration of Credit

The Association maintains its cash balances with one financial institution located in Salt Lake City, Utah. Such cash balances often exceed federally insured limits. As of June 30, 2010, the Association has approximately \$772,000 of cash in excess of federal deposit insurance coverage limitations. To date, the Association has not experienced a material loss or lack of access to its invested cash; however, no assurance can be provided that access to the Association's cash will not be impacted by adverse conditions in the financial markets.

Member Assessments

Association members are subject to annual assessments to provide for the Association's operating expenses, maintenance, and major repairs or replacements.

Annual assessments are determined by the Board of Directors each year. The board has the authority to increase or decrease the assessment each year. However, the assessment may not be increased by more than 10% over the previous year without a two-thirds vote of the members of the Association. In addition, upon approval of a two-thirds vote of the members of the Association, the Association may levy a special assessment for a specific need that cannot be satisfied by the annual assessment.

Assessments receivable at the balance sheet date represent amounts due from lot owners. If the assessment is not paid within ninety days after the due date, the assessment bears interest from the date of delinquency at the rate of 12 percent per annum; and the Association may bring an action against the owner obligated to pay the assessment or foreclose the lien against the property. Allowances are provided for uncollectible accounts when deemed necessary. Allowances are provided on an account-by-account basis for those accounts beyond normal payment terms.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual lot owners in common and not by the Association. The Association records personal property to which it has title at its cost.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Lives</u>
Machinery and equipment	3 – 5 years
Security equipment	5 years



TIMBER LAKES PROPERTY OWNERS ASSOCIATION

Notes to Balance Sheet

Continued

1. **Summary of Significant Accounting Policies**
Continued

Revenue Recognition and Deferred Revenue

Members are billed for the annual assessment on January 1st of each year. Member assessments are considered past due if not received within 90 days. Member assessments are to be used for the following fiscal year, July 1st through June 30th, resulting in deferred assessment revenues on the balance sheet. As of June 30, 2010, the amount of deferred assessment revenues was \$942,181.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. In the past the Association has elected to file Form 1120-H and accordingly, was taxed on its nonexempt function income, which has not been material to the overall operations of the Association. Income taxes for the year ended June 30, 2010 were not material, therefore, no income tax accrual was recorded.

Effective July 1, 2009, the Association implemented the accounting guidance for uncertainty in income taxes using the provisions of Financial Accounting Standards Board ASC 740 *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities.

As of June 30, 2010, the Association had no uncertain tax positions that qualify for either recognition or disclosure in the balance sheet.

Subsequent Events

The Association has evaluated subsequent events through February 25, 2011, which is the date the financial statements were available to be issued.

2. **Commitments and Contingencies**

Legal Matters

The Association is involved in legal proceedings arising in the normal course of business. Management believes that the outcome of these proceedings will not have a material impact on the Association's financial position in excess of any amounts accrued as of the balance sheet date.



2. Commitments and Contingencies
Continued

Operating Lease

The Association is obligated under an operating lease for equipment. Future minimum lease payments under the noncancellable operating lease are as follows as of June 30, 2010:

Years Ending June 30:

2011	\$	55,034
2012		9,172
	\$	<u>64,206</u>

3. Related Party Transactions

The underlying concept of a common interest realty association is control by members with and for whom the Association conducts its operations. The Association is involved in significant related party transactions as a result of its normal activities with members.

The Association has engaged the services of a consultant to assist in the financial management of the Association. The consultant employs a member of the Association to perform the accounting functions of the Association.

The Association collects a bond from any member wishing to build on a lot in the development. The bonds are held by the Association to cover potential road or property damage that occurs during the building process. As of June 30, 2010, the Association had a potential liability of \$129,780 due to members in relation to these bonds.

4. Required Supplementary Information

Supplementary information required by the American Institute of Certified Public Accountants regarding the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future is not presented because the Association has not conducted a study to determine this information. The Association has also not developed a plan to fund those needs.

When replacement funds are needed to meet future requirements for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.