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TIMBER LAKES PROPERTY OWNERS ASSOCIATION

**Financial Statements
As of and for the year ended June 30, 2011**

Together with Independent Auditors' Report



Tanner LLC
Key Bank Tower at City Creek
36 South State Street, Suite 600
Salt Lake City, Utah 84111-1400
Telephone (801) 532-7444
www.tannerco.com

TANNER
BUSINESS ADVISORS AND CERTIFIED
PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Timber Lakes Property Owners Association

We have audited the accompanying balance sheet of Timber Lakes Property Owners Association (the Association) as of June 30, 2011 and the related statements of revenues, 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.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. 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 Timber Lakes Property Owners Association as of June 30, 2011 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 8 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

Tanner LLC

December 22, 2011



TIMBER LAKES PROPERTY OWNERS ASSOCIATION
Balance Sheet

As of June 30, 2011

	Operating Fund	Replacement Fund	Total
<u>Assets</u>			
Cash	\$ 762,687	\$ 286,503	\$ 1,049,190
Member assessments receivable, less allowance for doubtful accounts of \$218,832	107,783	-	107,783
Prepaid expenses and other	20,572	-	20,572
Property and equipment:			
Road maintenance equipment	102,688	-	102,688
Transportation equipment	6,500	-	6,500
Security equipment	13,249	-	13,249
	122,437	-	122,437
Accumulated depreciation	(80,532)	-	(80,532)
Property and equipment, net	41,905	-	41,905
Total assets	\$ 932,947	\$ 286,503	\$ 1,219,450
<u>Liabilities and Fund Balances</u>			
Accounts payable	\$ 54,945	\$ -	\$ 54,945
Accrued expenses	13,715	-	13,715
Deferred assessment revenues	942,181	-	942,181
Building bond payables	58,028	-	58,028
Total liabilities	1,068,869	-	1,068,869
Commitments and contingencies			
Fund balance (deficit)	(135,922)	286,503	150,581
Total liabilities and fund balances	\$ 932,947	\$ 286,503	\$ 1,219,450



TIMBER LAKES PROPERTY OWNERS ASSOCIATION
Statement of Revenues, Expenses, and Changes in Fund Balances

Year Ended June 30, 2011

	Operating Fund	Replacement Fund	Total
Revenues:			
Regular assessments	\$ 942,187	\$ -	\$ 942,187
Finance charges	45,813	-	45,813
Interest income	2,766	-	2,766
Other	25,441	-	25,441
Total revenues	1,016,207	-	1,016,207
Expenses:			
Road improvements and maintenance	473,290	-	473,290
Security	118,118	-	118,118
Professional services	92,360	-	92,360
General and administrative	72,776	-	72,776
Utilities	85,119	-	85,119
Surveying	44,743	-	44,743
Other operating expenses	39,689	-	39,689
Depreciation	32,338	-	32,338
Total expenses	958,433	-	958,433
Excess of revenues over expenses	57,774	-	57,774
Transfers	(286,503)	286,503	-
Increase (decrease) in fund balances	(228,729)	286,503	57,774
Fund balances, beginning of the year	92,807	-	92,807
Fund balances (deficit), end of the year	\$ (135,922)	\$ 286,503	\$ 150,581



TIMBER LAKES PROPERTY OWNERS ASSOCIATION
Statement of Cash Flows

Year Ended June 30, 2011

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Increase (decrease) in fund balances	\$ (228,729)	\$ 286,503	\$ 57,774
Adjustments to reconcile increase (decrease) in fund balances to net cash provided by (used in) operating activities:			
Depreciation	32,338	-	32,338
Change in allowance for doubtful accounts	(18,001)	-	(18,001)
(Increase) decrease in:			
Member assessments receivable	10,775	-	10,775
Prepaid expenses	(2,894)	-	(2,894)
Increase (decrease) in:			
Accounts payable	18,440	-	18,440
Net cash provided by (used in) operating activities	<u>(188,071)</u>	<u>286,503</u>	<u>98,432</u>
Cash flows from investing activities:	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from financing activities:			
Building bonds payable	<u>(71,752)</u>	<u>-</u>	<u>(71,752)</u>
Net change in cash	(259,823)	286,503	26,680
Cash at beginning of year	<u>1,022,510</u>	<u>-</u>	<u>1,022,510</u>
Cash at end of year	<u>\$ 762,687</u>	<u>\$ 286,503</u>	<u>\$ 1,049,190</u>

Supplemental disclosure of cash flow information

Interest paid	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

Supplemental disclosure of noncash investing and financing activities:

During the year ended June 30, 2011, the Board of Directors approved the transfer of \$286,503 of operating funds to be held for future repairs and replacements. The transfer is included in the increase (decrease) in fund balances for the operating and replacement fund.



TIMBER LAKES PROPERTY OWNERS ASSOCIATION

Notes to Financial Statements

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 nonprofit 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 pertaining to 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.

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 financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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, and revenues and expenses during the reporting period. 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, 2011, the Association did not have any cash equivalents.



1. Summary of Significant Accounting Policies
Continued

Concentration of Credit

The Association maintains cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2011, the Association has approximately \$750,000 of cash in excess of FDIC insurance limitations. To date, the Association has not experienced a 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.

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. The Association records real property that either (1) generates significant cash flows from its members on the basis of usage or from nonmembers; or (2) the Association has title and the Board has the unilateral right to dispose of the property without the consent of the members.



TIMBER LAKES PROPERTY OWNERS ASSOCIATION
Notes to Financial Statements
Continued

1. Summary of Significant Accounting Policies
Continued

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

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, 2011, 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, 2011 were not material, therefore, no income tax accrual was recorded.

US GAAP requires management to evaluate tax positions taken by the Association and recognize a tax liability (or asset) if the Association has taken an uncertain tax position that more likely than not would be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken by the Association and have concluded that as of June 30, 2011, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Association is subject to routine audits by taxing jurisdictions for tax years for which the applicable statutes of limitations have not expired; however, there are currently no audits for any tax periods in progress. Management believes the Association is no longer subject to income tax examinations for years prior to 2008.

Subsequent Events

The Association has evaluated subsequent events through December 22, 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 is not aware of claims or threatened claims that reasonably would be expected to have a material impact on the Association's financial position.

Operating Lease

The Association is obligated under an operating lease for equipment. The lease expires in March 2012 and requires minimum lease payments of \$36,690 in aggregate, through expiration.

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.

In prior years, the Association collected a bond from any member wishing to build on a lot in the development. The bonds were held by the Association to cover potential road or property damage that occurs during the building process. During 2011, the Association discontinued collecting bonds from its members. As of June 30, 2011, the Association had recorded a liability of \$58,028 due to members in relation to these bonds.

4. Future Major Repairs and Replacements

During the year ended June 30, 2011, the Board of Directors approved the transfer of \$286,503 of operating funds to be held for future repairs and replacements. This amount, along with future member assessments for the replacement fund, are held in a separate account designated for major repairs and replacements and are generally not available for operating purposes.



**4. Future Major
Repairs and
Replacements**
Continued

The Association's board determined the estimated remaining useful lives and replacement costs of the common property components. The Association plans to fund for such major repairs and replacements over the estimated useful lives of the components based on the Board's determination of current replacements costs. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, 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.



TIMBER LAKES PROPERTY OWNERS ASSOCIATION
Supplementary Information on Future Major Repairs
and Replacements (Unaudited)

June 30, 2011

Item	Remaining Useful Life (Years)	Estimated Replacement Cost	Balance as of June 30, 2011
Road	12	\$ 300,000	\$ 95,040
Administration building	20	130,000	43,333
Guard building	20	15,000	3,000
Security equipment	5	13,500	2,700
Mail house	25	20,000	3,333
Maintenance building	50	350,000	-
Common areas	25	100,000	-
Back hoe	5	40,000	11,429
Grader	2	160,000	-
Dump truck #(1)	3	14,000	5,600
Dump truck #(2)	3	14,000	5,600
Snow blower	3	35,000	20,000
Spreader #(1)	3	2,000	800
Spreader #(2)	3	2,000	800
Water truck	5	30,000	8,571
Tar pot	8	800	297
Roller	4	35,000	15,000
Pickup truck	1	41,000	41,000
Pickup truck	1	30,000	30,000
Totals		<u>\$ 1,332,300</u>	<u>\$ 286,503</u>