

THE RANCHES
HOMEOWNERS' ASSOCIATION
AUDITED FINANCIAL STATEMENTS

December 31, 2010

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Board of Directors
The Ranches Homeowners' Association
Eagle Mountain, Utah

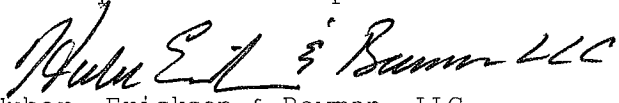
Report of Independent Auditor

We have audited the accompanying balance sheet of The Ranches Homeowners' Association, Inc. (the Association), as of December 31, 2010 and 2009, and the related statement 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 audits. 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 July 30, 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 the Association 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.

As discussed in Note B, the Associations' board last performed a capital reserve study in December 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.


Huber, Erickson & Bowman, LLC
Certified Public Accountants
July 1, 2011

AUDITED FINANCIAL STATEMENTS

THE RANCHES HOMEOWNERS' ASSOCIATION
BALANCE SHEET
December 31, 2010

	2010			2009
	OPERATING FUND	RESERVE FUND	TOTAL	Total for Comparative Purposes Only
ASSETS				
Cash and cash equivalents	\$ 147,909	\$ 178,213	\$ 326,122	\$ 249,057
Receivable from members, net	106,313	-	106,313	88,247
Prepaid and other	3,799	-	3,799	3,570
Interfund (payable) receivable	(90,548)	90,548	-	-
Related party receivable	<u>5,792</u>	<u>-</u>	<u>5,792</u>	<u>7,792</u>
TOTAL ASSETS	<u>\$ 173,265</u>	<u>\$ 268,761</u>	<u>\$ 442,026</u>	<u>\$ 348,666</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 15,203	\$ -	\$ 15,203	\$ 18,918
Utility liability	101,503	-	101,503	44,000
Deferred revenue	<u>52,892</u>	<u>5,931</u>	<u>58,823</u>	<u>66,122</u>
TOTAL LIABILITIES	169,598	5,931	175,529	129,040
FUND BALANCES	<u>3,667</u>	<u>262,830</u>	<u>266,497</u>	<u>219,626</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 173,265</u>	<u>\$ 268,761</u>	<u>\$ 442,026</u>	<u>\$ 348,666</u>

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

THE RANCHES HOMEOWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2010

	2010			2009
	OPERATING FUND	RESERVE FUND	TOTAL	Total for Comparative Purposes Only
REVENUES				
Member assessments	\$ 812,878	\$ 126,000	\$ 938,878	\$ 852,120
Interest income	2,691	-	2,691	3,367
Miscellaneous income	2,524	15,880	18,404	18,460
Fines and late fees	82,070	-	82,070	42,360
Builder fees	5,500	-	5,500	6,550
Design review board fees	11,250	-	11,250	9,255
TOTAL REVENUES	<u>916,913</u>	<u>141,880</u>	<u>1,058,793</u>	<u>932,112</u>
EXPENSES				
Bank charges	60	-	60	50
Repairs and maintenance	390,141	-	390,141	372,421
Utilities	70,225	-	70,225	49,133
Insurance	5,466	-	5,466	5,935
Miscellaneous	27,797	-	27,797	25,164
Professional fees	26,704	-	26,704	10,681
Contract labor	11,700	-	11,700	9,600
Bad debt expense	57,348	-	57,348	90,144
Management fees	242,400	-	242,400	232,000
Collection fees	711	-	711	2,787
Office supplies expense	62,492	-	62,492	56,312
Reserve expenses	-	116,878	116,878	67,203
TOTAL EXPENSES	<u>895,044</u>	<u>116,878</u>	<u>1,011,922</u>	<u>921,430</u>
EXCESS OF REVENUES OVER EXPENSES	21,869	25,002	46,871	10,682
Interfund transfers	-	-	-	-
Beginning Fund Balances	<u>(18,202)</u>	<u>237,828</u>	<u>219,626</u>	<u>208,944</u>
Ending Fund Balances	<u>\$ 3,667</u>	<u>\$ 262,830</u>	<u>\$ 266,497</u>	<u>\$ 219,626</u>

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

THE RANCHES HOMEOWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2010

	2010			2009
	OPERATING FUND	RESERVE FUND	TOTAL	Total for Comparative Purposes Only
OPERATING ACTIVITIES				
Excess of revenues over expenses	\$ 21,869	\$ 25,002	\$ 46,871	\$ 10,682
Adjustments to reconcile excess of revenues over expenses to net cash and cash equivalents provided by (used in) operating activities:				
(Increase) decrease in assets:				
Assessments receivable	(18,066)	-	(18,066)	46,201
Prepays and other receivables	1,771	-	1,771	(7,691)
Increase (decrease) in liabilities:				
Accounts payable	(3,715)	-	(3,715)	(29,304)
Accrued liabilities	57,503	-	57,503	44,000
Unearned assessments	(6)	(7,293)	(7,299)	23,877
Net cash provided by operating activities	<u>59,356</u>	<u>17,709</u>	<u>77,065</u>	<u>87,765</u>
FINANCING ACTIVITIES				
Change in interfund payable/receivable	<u>(24,831)</u>	<u>24,831</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>(24,831)</u>	<u>24,831</u>	<u>-</u>	<u>-</u>
Increase in cash	34,525	42,540	77,065	87,765
Cash at beginning of year	<u>113,384</u>	<u>135,673</u>	<u>249,057</u>	<u>161,292</u>
Cash at end of year	<u>\$ 147,909</u>	<u>\$ 178,213</u>	<u>\$ 326,122</u>	<u>\$ 249,057</u>

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

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Activity

The Ranches Homeowners' Association, Inc. (the Association) was organized in 1998 as a not-for-profit corporation to function as the master property owners association for a 1,500 acre planned community located in Eagle Mountain, 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, 2010, the Association consisted of 2,968 units.

Estimates

The preparation of financial statements 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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:

Operating fund

This fund is used to account for financial resources available for the general operations of the Association.

Reserve fund

This fund is used to accumulate financial resources designated for future major repairs and replacements.

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.

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Member Assessments

In addition to the basic member assessment, the Association may levy special assessments at any time upon the affirmative vote of at least 67 percent of total votes of Association members. 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.

Design Review Board Fees

Since all of the expenses of the Design Review Board (DRB) are covered by the Association, the Association collects a fee from the specific owners as they go through this design process to help defray the associated costs. The amount of these fees are determined by the DRB, and are recorded as revenue when collected.

Fair Value of Financial Instruments

The Association's financial instruments consist of cash, receivables, prepaids, accruals, and accounts payable. The carrying amount of cash, receivables, prepaids, payables and accruals approximates fair value because of the short-term nature of these items.

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. 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.

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.

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivable from Members and Allowance for Bad Debt

As of December 31, 2010, the Association had recorded \$226,313 in assessments receivable for which an allowance for uncollectible accounts of \$120,000 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 per month including simple interest at 8% per annum is assessed. The Association also retains legal counsel and places liens on the properties of members whose assessments are fifty-one days or more delinquent. The Association charges off uncollectible accounts when management estimates no possibility of collecting the related receivable.

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.

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.

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.

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.

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$87,717 in deposits in excess of 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, and restricted cash.

Comparative Totals for 2009

The 2009 total columns are for comparison purposes 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.

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 an independent engineer to complete a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The study was completed and issued in December 2007. The reserve study has not been updated for the year ended December 31, 2010. Although the reserve study has not been updated, the Association has budgeted \$177,275 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 Replacement 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.

The Association has recorded a net payable of \$90,548 in the operating fund representing assessments not yet transferred to the reserve fund. The Association intends to transfer this amount in 2010 and, therefore, has reflected this amount as an interfund receivable/payable.

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2010

OPERATING LEASES

Effective May 31, 2008, the Association entered into a non-cancellable lease agreement with the existing landlord that extends through May 8, 2011. The base rental amount is \$18.50 per square foot with an increase on the anniversary date by 4% per year. The Association subleases a portion of the premises to the Association Management company. Revenues received from the management company in 2010 total \$14,400. As of the date these financial statements were issued, management had not signed a new lease agreement and the lease was continuing on a month-to-month basis.

Future minimum operating lease payments are as follows:

Year ending:	
2011	\$ <u>10,315</u>

Rent expense paid for the year ended December 31, 2010, was \$30,548.

MANAGEMENT AGREEMENT

The Association entered into an agreement with The Ranches Community Management, L.C. (RCM) which expires on December 31, 2012.

RCM provides the following duties:

1. Manage and operate community areas in accordance with governing documents.
2. Provide payment of the expenses and costs incurred by the Association.
3. Levy, collect and enforce assessments as provided by the Association's Covenants, Conditions and Restrictions.
4. Other services described in the management agreement.

RCM received management fees and reimbursements of operating expenses as compensation for providing the above services. Total fees paid to RCM for the year ended December 31, 2010, was \$242,400.

RELATED PARTY RECEIVABLES

During 2010, the Association paid landscape bills on behalf of a sub-association. There is no rate of interest or repayment terms on the note.

SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through July 1, 2011, which is the date these financial statements were issued. All subsequent events requiring recognition as of July 1, 2011, have been incorporated into these financial statements herein.

UTILITY LIABILITY

During 2010, the Association resolved a water billing dispute with Eagle Mountain City totaling \$101,503, which is recored as a liability in the balance sheet as of December 31, 2010.