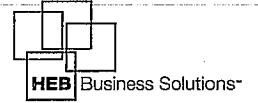


THE RANCHES
HOMEOWNERS' ASSOCIATION
AUDITED FINANCIAL STATEMENTS

December 31, 2008

C O N T E N T S

	Page
REPORT OF INDEPENDENT AUDITOR	2
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6



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 HOA), as of December 31, 2008, 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 HOA'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 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 HOA as of December 31, 2008, 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 June 2005, 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

Huber, Erickson & Bowman, LLC
Certified Public Accountants
August 31, 2009

AUDITED FINANCIAL STATEMENTS

THE RANCHES HOMEOWNERS' ASSOCIATION
BALANCE SHEET
December 31, 2008

	OPERATING FUND	RESERVE FUND	TOTAL
ASSETS			
Cash and cash equivalents	\$ 72,003	\$ 89,289	\$ 161,292
Receivable from members, net	134,448	-	134,448
Prepaid and other	3,671	-	3,671
Interfund payable/receivable	<u>(79,021)</u>	<u>79,021</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 131,101</u>	<u>\$ 168,310</u>	<u>\$ 299,411</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 48,222	\$ -	\$ 48,222
Deferred revenue	<u>38,020</u>	<u>4,225</u>	<u>42,245</u>
TOTAL LIABILITIES	86,242	4,225	90,467
FUND BALANCES	<u>44,859</u>	<u>164,085</u>	<u>208,944</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 131,101</u>	<u>\$ 168,310</u>	<u>\$ 299,411</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, 2008

	OPERATING FUND	RESERVE FUND	TOTAL
REVENUES			
Member assessments	\$ 728,854	\$ 44,112	\$ 772,966
Interest income	3,932	-	3,932
Miscellaneous income	9,443	5,284	14,727
Fines and late fees	72,590	-	72,590
Builder fees	3,730	-	3,730
Design review board fees	10,200	-	10,200
TOTAL REVENUES	828,749	49,396	878,145
EXPENSES			
Bank charges	2,402	-	2,402
Repairs and maintenance	331,045	-	331,045
Utilities	29,645	-	29,645
Insurance	4,667	-	4,667
Miscellaneous	4,227	-	4,227
Professional fees	35,414	-	35,414
Contract labor	12,200	-	12,200
Bad debt expense	77,244	-	77,244
Management fees	190,000	-	190,000
Collection fees	38,747	-	38,747
Office supplies expense	60,940	-	60,940
Reserve expenses	-	83,567	83,567
TOTAL EXPENSES	786,531	83,567	870,098
EXCESS OF REVENUES OVER EXPENSES	42,218	(34,171)	8,047
Interfund transfers	-	-	-
Beginning Fund Balances	2,641	198,256	200,897
Ending Fund Balances	\$ 44,859	\$ 164,085	\$ 208,944

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

THE RANCHES HOMEOWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
Year Ended December 31, 2008

	OPERATING FUND	RESERVE FUND	TOTAL
OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 42,218	\$ (34,171)	\$ 8,047
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	(41,486)	-	(41,486)
Prepays and other receivables	13,921	-	13,921
Increase (decrease) in liabilities:			
Accounts payable	27,000	-	27,000
Unearned assessments	(5,707)	(5,375)	(11,082)
Net cash provided by (used in) operating activities	<u>35,946</u>	<u>(39,546)</u>	<u>(3,600)</u>
FINANCING ACTIVITIES			
Change in interfund payable/receivable	<u>35,980</u>	<u>(35,980)</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>35,980</u>	<u>(35,980)</u>	<u>-</u>
Increase (decrease) in cash	71,926	(75,526)	(3,600)
Cash at beginning of year	<u>77</u>	<u>164,815</u>	<u>164,892</u>
Cash at end of year	<u>\$ 72,003</u>	<u>\$ 89,289</u>	<u>\$ 161,292</u>

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

THE RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008, the Association consisted of 2,634 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, 2008

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, 2008, 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, 2008

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivable from Members and Allowance for Bad Debt

As of December 31, 2008, the Association had recorded \$214,448 in assessments receivable for which an allowance for uncollectible accounts of \$80,000 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, 2008, 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, 2008

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, 2008, the Association had no balances over 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.

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 with a site visit and was issued in June 2005. The reserve study has not been updated for the year ended December 31, 2008. Although the reserve study has not been updated, the Association has budgeted \$84,000 in fiscal 2009 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 \$79,021 in the operating fund representing assessments not yet transferred to the reserve fund. The Association will transfer this amount in 2009 and, therefore, has reflected this amount as an interfund receivable/payable.

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 RANCHES HOMEOWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2008

OPERATING LEASES (CONTINUED)

Future minimum operating lease payments are as follows:

Year ending:	
2009	\$ 29,373
2010	30,548
2011	<u>10,315</u>
	<u>\$ 70,236</u>

Rent expense paid for the year ended December 31, 2008, was \$13,757.

MANAGEMENT AGREEMENT

The Association entered into an agreement with Quality Management Services, Inc. (QMS) to provide management services for the Association. The agreement expired on December 31, 2008. Subsequent to year end the Association entered into a management agreement with The Ranches Community Management, L.C. (RCM) which expires on December 31, 2009.

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.

QMS received management fees and reimbursements of operating expenses as compensation for providing the above services. Total fees paid to QMS for the year ended December 31, 2008, was \$190,000.