

*SOMERSETT OWNERS ASSOCIATION*  
*FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION*  
*DECEMBER 31, 2014*



HILBURN & LEIN, CPAs  
A PROFESSIONAL CORPORATION

SOMERSETT OWNERS ASSOCIATION

DECEMBER 31, 2014

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HILBURN & LEIN, CPAs  
A PROFESSIONAL CORPORATION

Gary W. Lein, CPA  
Shareholder

Greg M. Sinacori, CPA  
Shareholder

Philip C. Bateman, CPA  
Shareholder

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of  
Somerset Owners Association  
Reno, Nevada

We have audited the accompanying financial statements of Somerset Owners Association, which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Somerset Owners Association as of December 31, 2014, 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.

***Emphasis of Matter***

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

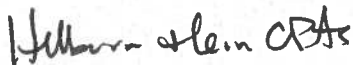
***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of Reserve Analysis on pages 14 and 15 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.

***Other Matters***

The Balance Sheets by Funds and the Statements of Revenues and Expenses and Changes in Fund Balances by Funds on pages 16 through 18 are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Schedule of Revenues and Expenses - Budget and Actual on pages 19 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Las Vegas, Nevada  
July 27, 2015

**SOMERSETT OWNERS ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

ASSETS

	2014			2013
	OPERATING FUND	RESERVE FUND	TOTAL	TOTAL
Cash - Notes 3 and 6	\$ 989,857	\$ 3,137,748	\$ 4,127,605	\$ 4,515,725
Certificates of Deposit - Note 6	-	750,000	750,000	-
Assessments and Violations Receivable, Net of Allowance for Doubtful Accounts of \$159,693 and \$184,269	94,798	-	94,798	130,938
Other Receivable	2,904	-	2,904	51,837
Due (to)/from Funds	5,540	(5,540)	-	-
Prepaid Expenses	40,011	-	40,011	58,225
Property and Equipment - Note 7	8,069,410	-	8,069,410	8,018,038
<b>TOTAL ASSETS</b>	<b>\$ 9,202,520</b>	<b>\$ 3,882,208</b>	<b>\$ 13,084,728</b>	<b>\$ 12,774,763</b>

LIABILITIES AND FUND BALANCES

Accounts Payable	\$ 361,193	\$ 8,550	\$ 369,743	\$ 253,847
Prepaid Assessments	343,594	-	343,594	230,165
Refundable Deposits	62,065	-	62,065	66,150
Capital Leases Payable - Note 10	15,497	-	15,497	21,642
Notes Payable - Note 11	2,986,489	-	2,986,489	3,168,804
	<u>3,768,838</u>	<u>8,550</u>	<u>3,777,388</u>	<u>3,740,608</u>
<b>FUND BALANCES</b>				
General Common Area	580,835	1,356,218	1,937,053	1,626,509
The Club at Town Center	4,698,248	587,102	5,285,350	5,378,290
Gated Area	154,599	1,930,338	2,084,937	2,029,356
	<u>5,433,682</u>	<u>3,873,658</u>	<u>9,307,340</u>	<u>9,034,155</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,202,520</b>	<b>\$ 3,882,208</b>	<b>\$ 13,084,728</b>	<b>\$ 12,774,763</b>

The accompanying notes are an integral part of these financial statements

**SOMERSETT OWNERS ASSOCIATION  
STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

	2014			2013
	OPERATING FUND	RESERVE FUND	TOTAL	TOTAL
<b>REVENUES</b>				
Member Assessments	\$ 3,658,033	\$ 766,000	\$ 4,424,033	\$ 4,275,723
Non-Member Assessments	30,915	-	30,915	25,476
Late Fees and Fines, Net	17,165	-	17,165	28,376
Interest Income	447	8,089	8,536	8,737
Activity Fees	136,637	-	136,637	150,843
Rental Income	34,907	-	34,907	42,792
Merchandise Sales	54,751	-	54,751	55,937
Green Fees	37,575	-	37,575	40,853
Community Events	8,331	-	8,331	17,526
Settlement Income	-	-	-	395,000
Capital Contributions - Note 2	140,216	-	140,216	108,241
Other Income	61,273	-	61,273	73,580
	<u>4,180,250</u>	<u>774,089</u>	<u>4,954,339</u>	<u>5,223,084</u>
<b>EXPENSES</b>				
Cost of Merchandise Sold	40,381	-	40,381	40,517
Entry Cottage Expenses	20,852	-	20,852	19,937
Contract Labor and Benefits	650,981	-	650,981	697,360
Common Area Landscaping	722,898	47,883	770,781	790,310
Repairs and Maintenance	267,492	159,197	426,689	375,125
Canyon 9 Reimbursement - Note 8	321,564	-	321,564	310,816
Community Access - Note 9	321,837	262,855	584,692	406,206
Pool Maintenance	25,182	180,092	205,274	35,845
Utilities	467,649	-	467,649	442,936
Communications	30,511	-	30,511	26,727
Professional Fees	301,126	-	301,126	255,985
Bad Debts Expense	42,526	-	42,526	13,786
Depreciation and Amortization	249,573	-	249,573	252,021
Professional Management	85,745	-	85,745	111,533
Postage, Copies, and Supplies	42,988	-	42,988	33,167
Community Events	15,979	-	15,979	25,434
Activity Expenses	158,437	-	158,437	147,079
Insurance	78,918	-	78,918	67,420
Interest Expense	154,263	-	154,263	163,137
Miscellaneous	32,225	-	32,225	37,574
	<u>4,031,127</u>	<u>650,027</u>	<u>4,681,154</u>	<u>4,252,915</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ 149,123</u>	<u>\$ 124,062</u>	<u>\$ 273,185</u>	<u>\$ 970,169</u>

The accompanying notes are an integral part of these financial statements

**SOMERSETT OWNERS ASSOCIATION  
STATEMENT OF CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

	2014			2013
	OPERATING FUND	RESERVE FUND	TOTAL	TOTAL
Fund Balances at Beginning of Year	\$ 5,355,961	\$ 3,678,194	\$ 9,034,155	\$ 8,063,986
Excess of Revenues over Expenses	149,123	124,062	273,185	970,169
Inter-Fund Transfers :				
Excess Operating Funds Transfer	(100,000)	100,000	-	-
Personal Property Transfer	22,453	(22,453)	-	-
Capital Lease Payments Transfer	6,145	(6,145)	-	-
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ <u>5,433,682</u></b>	<b>\$ <u>3,873,658</u></b>	<b>\$ <u>9,307,340</u></b>	<b>\$ <u>9,034,155</u></b>

The accompanying notes are an integral part of these financial statements

**SOMERSETT OWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

	2014		2013	
	OPERATING FUND	RESERVE FUND	TOTAL	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Excess of Revenues over Expenses	\$ 149,123	\$ 124,062	\$ 273,185	\$ 970,169
<b>ADJUSTMENTS TO RECONCILE EXCESS REVENUES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Depreciation and Amortization	253,055	-	253,055	252,021
Bad Debts Expense	42,526	-	42,526	13,786
Loss on Disposal of Fixed Assets	-	-	-	1,324
Loss on Sale of Units in Possession	-	-	-	6,916
<b>Changes in:</b>				
Assessments Receivable	(6,386)	-	(6,386)	(10,248)
Other Receivable	48,933	-	48,933	(42,269)
Prepaid Expenses	18,214	-	18,214	(34,572)
Due to/from Funds	(5,540)	5,540	-	-
Refundable Deposits	-	-	-	10,765
Units in Possession	-	-	-	366,600
Accounts Payable	107,346	8,550	115,896	126,103
Developer Subsidy Payable	-	-	-	(59,907)
Prepaid Assessments	113,429	-	113,429	9,930
Refundable Deposits	(4,085)	-	(4,085)	14,600
	<u>567,492</u>	<u>14,090</u>	<u>581,582</u>	<u>655,049</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 716,615</b>	<b>\$ 138,152</b>	<b>\$ 854,767</b>	<b>\$ 1,625,218</b>

The accompanying notes are an integral part of these financial statements



**SOMERSETT OWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**WITH COMPARATIVE TOTALS FOR 2013**

	2014			2013
	OPERATING FUND	RESERVE FUND	TOTAL	TOTAL
<b>CASH FLOWS USED FOR INVESTING ACTIVITIES</b>				
Purchases of Fixed Assets	\$ (22,453)	\$ -	\$ (22,453)	\$ (109,798)
Purchase of Land	(281,974)	-	(281,974)	-
Purchase of Certificates of Deposit	-	(750,000)	(750,000)	-
	(304,427)	(750,000)	(1,054,427)	(109,798)
<b>CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES</b>				
Payments on Notes Payable	(182,315)	-	(182,315)	(173,441)
Payments on Capital Leases	(6,145)	-	(6,145)	(19,806)
Inter-Fund Transfers	(71,402)	71,402	-	-
	(259,862)	71,402	(188,460)	(193,247)
<b>NET INCREASE (DECREASE) IN CASH</b>	152,326	(540,446)	(388,120)	1,322,173
Cash at Beginning of Year	837,531	3,678,194	4,515,725	3,193,552
<b>CASH AT END OF YEAR</b>	\$ 989,857	\$ 3,137,748	\$ 4,127,605	\$ 4,515,725
<b>SUPPLEMENTARY INFORMATION:</b>				
Cash Paid for Federal Income Taxes	\$ -	\$ -	\$ -	\$ -
Cash Paid for Interest	\$ 154,263	\$ 2,903	\$ 157,166	\$ 163,137

The accompanying notes are an integral part of these financial statements

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 1 - ORGANIZATION**

Somersett Owners Association was incorporated on December 5, 2002. The Association is a statutory planned unit development in Reno, Nevada, organized as a domestic non-profit corporation for purposes of maintaining and preserving the Association's common property, operation of the Club at Town Center common area, the Canyon 9 Golf Course, as well as gated area lots. As of December 31, 2014, the Association consisted of 2,585 annexed lots and two commercial units, as well as 612 gated area lots. Total current anticipated build-out is approximately 3,400 lots with the potential of 5,000 lots.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

ACCOUNTING METHOD

Somersett Owners Association maintains its records on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, whether received or not, and expenses are recognized when goods or services are incurred, whether paid or not.

FUND ACCOUNTING

The Association uses fund accounting which requires funds, such as operating funds for day-to-day expenses and reserve funds designated for future major repairs and replacements of the common property, to be classified separately for accounting and reporting purposes. Disbursements from the operating funds are generally made in accordance with an annual budget, or as approved by the Board of Directors. Disbursements from the reserve funds may be made only for their designated purposes.

ASSESSMENTS AND ASSESSMENTS RECEIVABLE

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, major repairs and replacements, and use of The Club at Town Center and Canyon 9 Golf Course. Assessments receivable at the balance sheet date represent assessments, late fees, and fines due from owners.

It is the Association's policy to assess late fees on assessments over 30 days past due, and place liens against the properties of owners whose assessments are 90 days or more past due. For assessments considered uncollectable, the Association uses the allowance method for doubtful accounts, and charges assessments to operations in the period they are considered uncollectible. Also included in the allowance, are estimated uncollectable fines and late fees which are offset against current year fine and late fee income. When estimating the allowance for doubtful accounts, the Association considers factors such as historical losses, existing economic conditions, and the likelihood of collecting assessments beyond the nine month super priority lien.

LAND, BUILDING AND EQUIPMENT

Real property and common areas contributed by the Declarant, in which the Association can dispose of the property at the discretion of the Board of Directors or generate significant cash flows, are capitalized on the Association's financial statements at the Declarant's transfer cost. Capital assets subsequently acquired are recorded at cost. Common property not capitalized consists of streets, gates, pocket parks, trails, lighting, a guardhouse, trails, signage, and various landscaping, and are restricted to use by the Association's members, their tenants, and guests. According to the Association's governing documents, a majority of all owners must approve dispositions of any common real property.

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

LAND, BUILDING AND EQUIPMENT (CONTINUED)

Depreciation on property and equipment begins when the assets are placed into service and is depreciated over their estimated useful lives using the straight-line method.

IMPAIRMENT OF LONG-LIVED ASSETS

The Association follows FASB ASC-360 and FASB ASC-820 for accounting for the impairment or disposal of long-lived assets. The Association evaluates its long-lived assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. In such circumstances, the Association evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with such assets. At the time such evaluations indicate the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values. As of December 31, 2014, management believes the carrying amounts of long-lived assets have not been impaired.

USE OF ESTIMATES

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make certain estimates and assumptions that affect amounts reported in the statements and accompanying notes. Assets, liabilities, and contingency disclosures require estimates as of the date of the financial statements. Revenues and expenses require estimates during the reporting period. Actual results could differ from those estimates.

DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditor's report, which is the date the financial statements were issued.

CASH FLOW STATEMENT

For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

CAPITAL CONTRIBUTIONS

Capital contributions are collected at the time of sale and are equal to one tenth of one percent of the lot sales price. Capital contributions are accounted for in the main common area fund.

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 3 - CASH**

Cash at December 31, 2014, as represented on the balance sheet is detailed as follows:

	OPERATING FUND	RESERVE FUND
Petty Cash and Imprest Funds	\$ 6,220	\$ -
US Bank:		
General Checking	576,374	-
Depository Account	8,861	-
ATM Account	5,962	-
Capital Contribution Account	392,440	-
General Checking	-	483,484
Money Market Account	-	2,158,395
BankUnited:		
Money Market Account	-	246,476
Capital One Bank:		
Money Market Account	-	249,393
	\$ 989,857	\$ 3,137,748

**NOTE 4 - RESERVE FUND**

The Association's governing documents require the establishment of a reserve fund to accumulate cash for future major repairs and replacements of the common property. The governing documents and state statutes also require the Association to have a reserve study conducted to estimate the remaining useful lives of the common property components, and determine estimated funding requirements. In 2014, the Association engaged an independent specialist to conduct a reserve study.

According to the reserve study, the recommended reserve contribution for 2014 was \$758,400. In 2014, the association assessed \$766,000 and transferred an additional \$100,000 for Association reserve funding. These reserve funds are accumulated based on estimated costs. Actual expenditures may vary from these estimates, and the variance may be material. At December 31, 2014 the accumulated reserve funds for the association totaled \$3,873,658.

**NOTE 5 - FEDERAL INCOME TAXES**

For the year ended December 31, 2014, the Association elected to file as a homeowners' association in accordance with Internal Revenue Code Section 528. Under that section, the Association excludes from taxable income exempt function income, which generally consists of revenue from uniform assessments to members. Net non-exempt function income from earned interest, net non-member assessments, activity fees, rental income, merchandise sales, green fees and architectural review committee fees were taxable at 30%. For 2014 the Association owed no federal income taxes. Federal tax filings are subject to audit by the Internal Revenue Service. Tax years open under the statute of limitations are 2011, 2012, 2013, and 2014.

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 6 - OFF-BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK**

The Association maintains some of its funds at US Bank. These funds are federally insured by the FDIC up to \$250,000. In addition, Liberty Mutual Insurance Company, (a private carrier), has issued a deposit surety bond to US Bank. Liberty Mutual Insurance Company unconditionally and irrevocably guarantees the full and complete payment required to be made by US Bank on its obligations to the Association in the event of bank failure. At December 31, 2014, US Bank reported deposits before outstanding checks of \$3,639,477 of which \$250,000 was insured by FDIC, resulting in a cash balance of \$3,389,477 subject to private insurance. The Association's investments in Certificates of Deposit are all FDIC insured deposits (\$250,000 limit) with a diversified group of banking institutions.

**NOTE 7 - PROPERTY AND EQUIPMENT**

At December 31, 2014, property and equipment as presented on the Association's balance sheet consist of the following:

Clubhouse Building	\$	392,100
Land		281,974
Golf Course		900,000
Golf Course Equipment		24,219
Electronic Equipment		125,815
Pool Furniture and Equipment		42,137
Fitness Equipment		150,242
Furniture and Equipment		77,798
Clubhouse Building		<u>8,001,100</u>
		9,995,385
Less: Accumulated Depreciation	(	<u>1,925,975</u> )
	\$	<u>8,069,410</u>

For the year ended December 31, 2014, depreciation expense was \$249,573.

**NOTE 8 - CANYON 9 LANDSCAPE MAINTENANCE CONTRACT**

On November 16, 2011, the Association entered into a three year contractual agreement, beginning on January 1, 2012, with Somerset Country Club, Inc. for Canyon 9 golf course maintenance. During 2014, the Association paid \$321,564 under the contract.

**NOTE 9 - COMMUNITY ACCESS**

On November 16, 2011, the Association entered into a three year lease and management agreement, beginning on January 1, 2012, with Somerset Country Club, Inc. to lease certain amenities to be provided by The Somerset Country Club. For the year ended December 31, 2014, the Association paid the Somerset Country Club \$321,837. In February 2015, the Association purchased the Somerset Country Club assets. In this purchase agreement, \$177,177 of the 2014 payments were credited towards the purchase price.

The Association was notified of a challenge to the lease and management agreement from the Nevada Real Estate Division. The lease and management ended December 31, 2014.

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 10 - CAPITAL LEASE**

At December 31, 2014, the Association had the following capital lease:

First Federal Leasing, 15.36%, Monthly Payments of \$754 including interest through December 2016, secured by exercise equipment	\$ <u>15,497</u>
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The following is a schedule of the future minimum payments required under the lease together with their present value as of December 31:

2015	\$ 9,049
2016	<u>9,048</u>
Total minimum lease payments	18,097
Less amount representing interest	( <u>2,600</u> )
Present value of minimum lease payments	\$ <u>15,497</u>

Equipment under the capital lease obligation is amortized on the straight-line method over the lease term. Such amortization is included in depreciation expense in the financial statements.

**NOTE 11 - NOTES PAYABLE**

At December 31, 2014, the Association had the following notes payable with Somerset Development Company, Ltd., the Declarant:

5.00%, Monthly Payments of \$23,098, through September 2026, secured by The Club at Town Center Facility	\$ 2,459,461
5.00%, Monthly Payments of \$4,950, through September 2026, secured by Canyon 9 Golf Course	<u>527,028</u>
Total Amount Due	\$ <u>2,986,489</u>

The following is a schedule of the future notes payable maturities for the years ending December 31:

2015	\$ 191,622
2016	201,426
2017	211,731
2018	222,564
2019 and thereafter	<u>2,159,146</u>
	\$ <u>2,986,489</u>

**SOMERSETT OWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**NOTE 12 - RELATED PARTY MATTERS**

The Declarant owned non-assessment paying lots within the Association during the year ended December 31, 2014. The Declarant has the right to release and annex lots for sale within the development.

**NOTE 13 - SUBSEQUENT EVENT**

In 2015, Somerset Owners Association purchased land, water rights, water distribution facilities, and maintenance facilities from Somerset Golf & Country Club, Inc. for \$2.75 million. The close of escrow took place in February 2015. In this purchase agreement, \$177,177 of the 2014 payments were credited towards the purchase price. The Association also obtained a \$2.6 million dollar loan to complete the purchase. Somerset Golf & Country Club, Inc. retained roughly 5.5 acres where their current clubhouse facilities are located. Certain provisions are put in place for the Association to have rights of first refusal should the Somerset Golf & Country Club, Inc. sell this 5.5 acre parcel.

Along with the physical property and water rights of this agreement, the purchase includes the termination of the developer's rights of reversion to the property. The agreement also included a "lease back" to the Country Club, Inc. to continue operation of their business. Under this lease agreement, the Somerset Golf & Country Club will be responsible for all maintenance of the golf course and facilities. Additionally, there is a water facilities and sharing agreement which outline the terms for water sharing between the Somerset Golf & Country Club course and the Canyon 9, which is run by the Association.

There will also continue to be access for Somerset Owners Association members to Somerset Golf & Country Club provided amenities, including but not limited to, access to the Somerset Golf & Country Club dining facilities, pro shop, bocce ball courts, driving range, and four foursome rounds of golf for each unit of the Association annually, at the prevailing price for non-equity member guests.

SUPPLEMENTARY FINANCIAL INFORMATION

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**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF RESERVE ANALYSIS  
DECEMBER 31, 2014**

**(UNAUDITED)**

The Association engaged an independent specialist to conduct a Reserve Study in 2014 to estimate the remaining useful lives and the replacement costs of the common property components. Replacement cost projections are based on future estimated replacement costs with assumed values of interest at 2.5% and inflation at 2.5%. The study uses the threshold method, which funds the reserve by attaining and maintaining a set fund balance.

MAJOR COMPONENT	ESTIMATED REMAINING USEFUL LIFE	ESTIMATED FUTURE REPLACE- MENT COST
<b><u>GENERAL COMMON AREA</u></b>		
Guardhouse	1 - 30	\$ 16,779
Asphalt and Concrete	5 - 20	3,613,732
Association Office	1 - 10	24,306
Pocket Parks	0 - 15	116,906
Canyon Nine Golf Course	0 - 28	224,758
Common Area	0 - 14	227,034
		\$ 4,223,515

At December 31, 2014, the General Common Area had \$1,356,218 in accumulated, unallocated reserve funds.

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF RESERVE ANALYSIS (CONTINUED)  
DECEMBER 31, 2014**

**(UNAUDITED)**

MAJOR COMPONENT	ESTIMATED REMAINING USEFUL LIFE	ESTIMATED FUTURE REPLACE- MENT COST
<b><u>THE CLUB AT TOWN CENTER</u></b>		
Snack Shack	0 - 20	\$ 109,172
Recreation Areas	0 - 28	1,130,937
Clubhouse	0 - 26	2,022,188
		\$ 3,262,297

At December 31, 2014, The Club at Town Center had \$587,102 in accumulated, unallocated reserve funds.

**GATED AREA**

Asphalt and Concrete	0 - 16	\$ 5,050,305
Walls, Gates, and Fences	0 - 22	414,154
		\$ 5,464,459

At December 31, 2014, the Gated Area had \$1,930,338 in accumulated, unallocated reserve funds.

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
BALANCE SHEETS BY FUND  
DECEMBER 31, 2014**

ASSETS

	Operating Fund	Reserve Fund	The Club at Town Center Operating Fund	The Club at Town Center Reserve Fund	Gated Area Operating Fund	Gated Area Reserve Fund	Total
Cash	\$ 988,457	\$ 3,137,748	\$ 1,400	\$ -	\$ -	\$ -	\$ 4,127,605
Certificates of Deposit	-	750,000	-	-	-	-	750,000
Due to Reserve Funds	-	(2,522,980)	-	592,642	-	1,930,338	-
Assessments Receivable, Net	58,641	-	27,627	-	8,530	-	94,798
Other Receivable	1,073	-	1,831	-	-	-	2,904
Due (to)/from Funds	(150,399)	-	(1,066)	(5,540)	157,005	-	-
Prepaid Expenses	28,117	-	8,987	-	2,907	-	40,011
Property and Equipment, Net	905,869	-	7,163,541	-	-	-	8,069,410
<b>TOTAL ASSETS</b>	<b>\$ 1,831,758</b>	<b>\$ 1,364,768</b>	<b>\$ 7,202,320</b>	<b>\$ 587,102</b>	<b>\$ 168,442</b>	<b>\$ 1,930,338</b>	<b>\$ 13,084,728</b>

LIABILITIES AND FUND BALANCES

Accounts Payable	\$ 359,998	\$ 8,550	\$ 1,195	\$ -	\$ -	\$ -	\$ 369,743
Prepaid Assessments	301,832	-	27,919	-	13,843	-	343,594
Refundable Deposits	62,065	-	-	-	-	-	62,065
Capital Lease Payable	-	-	15,497	-	-	-	15,497
Notes Payable	527,028	-	2,459,461	-	-	-	2,986,489
	<u>1,250,923</u>	<u>8,550</u>	<u>2,504,072</u>	<u>-</u>	<u>13,843</u>	<u>-</u>	<u>3,777,388</u>
<b>FUND BALANCES</b>	<b>580,835</b>	<b>1,356,218</b>	<b>4,698,248</b>	<b>587,102</b>	<b>154,599</b>	<b>1,930,338</b>	<b>9,307,340</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,831,758</b>	<b>\$ 1,364,768</b>	<b>\$ 7,202,320</b>	<b>\$ 587,102</b>	<b>\$ 168,442</b>	<b>\$ 1,930,338</b>	<b>\$ 13,084,728</b>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
STATEMENTS OF REVENUES AND EXPENSES BY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Operating Fund	Reserve Fund	The Club at Town Center Operating Fund	The Club at Town Center Reserve Fund	Gate Area Operating Fund	Gate Area Reserve Fund	Total
<b>REVENUES</b>							
Member Assessments	\$ 2,257,759	\$ 280,000	\$ 1,261,026	\$ 156,000	\$ 139,248	\$ 330,000	\$ 4,424,033
Non-Member Assessments	6,944	-	23,971	-	-	-	30,915
Late Fees and Fines, Net	17,165	-	-	-	-	-	17,165
Interest Income	443	1,780	4	1,941	-	4,368	8,536
Activity Fees	-	-	136,637	-	-	-	136,637
Rental Income	33,457	-	1,450	-	-	-	34,907
Merchandise Sales	-	-	54,751	-	-	-	54,751
Green Fees	37,575	-	-	-	-	-	37,575
Community Events	8,331	-	-	-	-	-	8,331
Capital Contributions	140,216	-	-	-	-	-	140,216
Other Income	22,315	-	18,214	-	20,744	-	61,273
	<u>2,524,205</u>	<u>281,780</u>	<u>1,496,053</u>	<u>157,941</u>	<u>159,992</u>	<u>334,368</u>	<u>4,954,339</u>
<b>EXPENSES</b>							
Cost of Merchandise Sold	-	-	40,381	-	-	-	40,381
Entry Cottage Expenses	20,852	-	-	-	-	-	20,852
Contract Labor and Benefits	90,000	-	524,663	-	36,318	-	650,981
Common Area Landscaping	707,498	47,883	15,400	-	-	-	770,781
Repairs and Maintenance	25,906	47,826	165,786	84,128	75,800	27,243	426,689
Canyon 9 Reimbursement	321,564	-	-	-	-	-	321,564
Community Access	321,837	-	-	-	-	262,855	584,692
Pool Maintenance	-	1,317	25,182	178,775	-	-	205,274
Utilities	389,407	-	70,992	-	7,250	-	467,649
Communications	2,502	-	18,541	-	9,468	-	30,511
Professional Fees	276,385	-	17,341	-	7,400	-	301,126
Bad Debts Expense	41,415	-	1,111	-	-	-	42,526
Depreciation	2,693	-	246,880	-	-	-	249,573
Professional Management	62,084	-	19,212	-	4,449	-	85,745
Postage, Copies, and Supplies	37,373	-	5,615	-	-	-	42,988
Community Events	15,979	-	-	-	-	-	15,979
Activity Expenses	16,451	-	141,986	-	-	-	158,437
Insurance	30,933	-	39,989	-	7,996	-	78,918
Interest Expense	27,227	-	127,036	-	-	-	154,263
Miscellaneous	8,309	-	23,916	-	-	-	32,225
	<u>2,398,415</u>	<u>97,026</u>	<u>1,484,031</u>	<u>262,903</u>	<u>148,681</u>	<u>290,098</u>	<u>4,681,154</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ 125,790</b>	<b>\$ 184,754</b>	<b>\$ 12,022</b>	<b>\$ (104,962)</b>	<b>\$ 11,311</b>	<b>\$ 44,270</b>	<b>\$ 273,185</b>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
STATEMENTS OF CHANGES IN FUND BALANCE BY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Operating Fund	Reserve Fund	The Club at Town Center Operating Fund	The Club at Town Center Reserve Fund	Gate Area Operating Fund	Gate Area Reserve Fund	Total
Fund Balances at Beginning of Year	\$ 555,045	\$ 1,071,464	\$ 4,657,628	\$ 720,662	\$ 143,288	\$ 1,886,068	\$ 9,034,155
Excess of Revenues or (Expenses)	125,790	184,754	12,022	(104,962)	11,311	44,270	273,185
Inter-Fund Transfers:							
Excess Operating Funds Transfer	(100,000)	100,000	-	-	-	-	-
Personal Property Transfer	-	-	22,453	(22,453)	-	-	-
Capital Lease Payments Transfer	-	-	6,145	(6,145)	-	-	-
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 580,835</b>	<b>\$ 1,356,218</b>	<b>\$ 4,698,248</b>	<b>\$ 587,102</b>	<b>\$ 154,599</b>	<b>\$ 1,930,338</b>	<b>\$ 9,307,340</b>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>GENERAL COMMON AREA</u>				VARIANCE
<u>OPERATING FUND</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>(UNAUDITED)</u>	<u>FAVORABLE/ (UNFAVORABLE)</u>
				<u>(UNAUDITED)</u>
<b>REVENUES</b>				
Member Assessments	\$ 2,257,759	\$ 2,232,212	\$	25,547
Non-Member Assessments	6,944	3,000		3,944
Late Fees and Fines, Net	17,165	12,327		4,838
Interest Income	443	120		323
Rental Income	33,457	50,000		(16,543)
Green Fees	37,575	42,000		(4,425)
Community Events	8,331	15,000		(6,669)
Capital Contributions	140,216	-		140,216
Other Income	22,315	14,000		8,315
	<u>2,524,205</u>	<u>2,368,659</u>		<u>155,546</u>
<b>EXPENSES</b>				
Entry Cottage Expenses	20,852	27,000		6,148
Contract Labor and Benefits	90,000	90,000		-
Common Area Landscaping	707,498	767,500		60,002
Repairs and Maintenance	25,906	39,500		13,594
Canyon 9 Reimbursement	321,564	317,497		(4,067)
Community Access	321,837	432,950		111,113
Utilities	389,407	342,600		(46,807)
Communications	2,502	1,500		(1,002)
Professional Fees	276,385	138,700		(137,685)
Bad Debts Expense	41,415	24,654		(16,761)
Depreciation	2,693	-		(2,693)
Professional Management	62,084	61,635		(449)
Postage, Copies, and Supplies	37,373	23,301		(14,072)
Community Events	15,979	23,026		7,047
Activity Expenses	16,451	18,000		1,549
Insurance	30,933	23,100		(7,833)
Interest Expense	27,227	59,400		32,173
Miscellaneous	8,309	12,000		3,691
	<u>2,398,415</u>	<u>2,402,363</u>		<u>3,948</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ 125,790</b>	<b>\$ (33,704)</b>	<b>\$</b>	<b>159,494</b>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>GENERAL COMMON AREA</u>				VARIANCE FAVORABLE/ (UNFAVORABLE) (UNAUDITED)
	<u>RESERVE FUND</u>	<u>ACTUAL</u>	<u>BUDGET</u> (UNAUDITED)	
<b>REVENUES</b>				
Member Assessments		\$ 280,000	\$ 280,000	\$ -
Interest Income		1,780	-	1,780
		<u>281,780</u>	<u>280,000</u>	<u>1,780</u>
<b>EXPENSES</b>				
Landscaping		47,883	62,245	14,362
Golf Course Repairs		15,418	25,684	10,266
Asphalt and Concrete Repairs		5,890	5,868	(22)
Building Repairs		26,518	15,453	(11,065)
Pool Repairs		1,317	-	(1,317)
		<u>97,026</u>	<u>109,250</u>	<u>12,224</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>		<u>\$ 184,754</u>	<u>\$ 170,750</u>	<u>\$ 14,004</u>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>THE CLUB AT TOWN CENTER</u>			VARIANCE FAVORABLE/ (UNFAVORABLE)
<u>OPERATING FUND</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>(UNFAVORABLE)</u>
		(UNAUDITED)	(UNAUDITED)
<b>REVENUES</b>			
Member Assessments	\$ 1,261,026	\$ 1,280,784	\$ (19,758)
Non-Member Assessments	23,971	14,400	9,571
Interest Income	4	-	4
Activity Fees	136,637	165,300	(28,663)
Rental Income	1,450	7,500	(6,050)
Merchandise Sales	54,751	66,000	(11,249)
Other Income	18,214	8,323	9,891
	<u>1,496,053</u>	<u>1,542,307</u>	<u>(46,254)</u>
<b>EXPENSES</b>			
Cost of Merchandise Sold	40,381	38,428	(1,953)
Contract Labor and Benefits	524,663	616,000	91,337
Common Area Landscaping	15,400	18,250	2,850
Repairs and Maintenance	165,786	246,200	80,414
Pool Maintenance	25,182	29,600	4,418
Utilities	70,992	73,000	2,008
Communications	18,541	20,000	1,459
Professional Fees	17,341	115,800	98,459
Bad Debts Expense	1,111	14,368	13,257
Depreciation and Amortization	246,880	-	(246,880)
Professional Management	19,212	19,416	204
Postage, Copies, and Supplies	5,615	7,200	1,585
Activity Expenses	141,986	139,090	(2,896)
Insurance	39,989	32,400	(7,589)
Interest Expense	127,036	277,182	150,146
Miscellaneous	23,916	22,500	(1,416)
	<u>1,484,031</u>	<u>1,669,434</u>	<u>185,403</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ <u>12,022</u></b>	<b>\$ <u>(127,127)</u></b>	<b>\$ <u>139,149</u></b>

(See Independent Auditors' Report)



**SOMERSETT OWNERS ASSOCIATION  
SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2014**

<u>THE CLUB AT TOWN CENTER</u>				VARIANCE FAVORABLE/ (UNFAVORABLE) (UNAUDITED)
	<u>ACTUAL</u>	<u>BUDGET</u>		<u>(UNFAVORABLE)</u>
<u>RESERVE FUND</u>		(UNAUDITED)		(UNAUDITED)
<b>REVENUES</b>				
Member Assessments	\$ 156,000	\$ 156,000	\$	-
Interest Income	1,941	-		1,941
	<u>157,941</u>	<u>156,000</u>		<u>1,941</u>
<b>EXPENSES</b>				
Clubhouse Repairs	84,128	55,546		(28,582)
Pool Repairs	178,775	52,245		(126,530)
	<u>262,903</u>	<u>107,791</u>		<u>(155,112)</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ (104,962)</b>	<b>\$ 48,209</b>	<b>\$</b>	<b>(153,171)</b>

(See Independent Auditors' Report)

**SOMERSETT OWNERS ASSOCIATION**  
**SCHEDULE OF REVENUES AND EXPENSES - BUDGET AND ACTUAL (CONTINUED)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

<u><b>GATED AREA</b></u>			<b>VARIANCE</b>
	<u>ACTUAL</u>	<u>BUDGET</u>	<u>FAVORABLE/ (UNFAVORABLE)</u>
<u>OPERATING FUND</u>		<u>(UNAUDITED)</u>	<u>(UNAUDITED)</u>
<b>REVENUES</b>			
Member Assessments	\$ 139,248	\$ 146,184	\$ (6,936)
Other Income	20,744	3,016	17,728
	<u>159,992</u>	<u>149,200</u>	<u>10,792</u>
<b>EXPENSES</b>			
Contract Labor and Benefits	36,318	40,800	4,482
Repairs and Maintenance	75,800	108,200	32,400
Utilities	7,250	8,400	1,150
Communications	9,468	6,000	(3,468)
Professional Fees	7,400	1,000	(6,400)
Bad Debts Expense	-	4,758	4,758
Professional Management	4,449	4,608	159
Insurance	7,996	7,200	(796)
	<u>148,681</u>	<u>180,966</u>	<u>32,285</u>
<b>EXCESS OF REVENUES OR (EXPENSES)</b>	<b>\$ <u>11,311</u></b>	<b>\$ <u>(31,766)</u></b>	<b>\$ <u>43,077</u></b>
 <u><b>RESERVE FUND</b></u>			
<b>REVENUES</b>			
Member Assessments	\$ 330,000	\$ 330,000	\$ -
Interest Income	4,368	-	4,368
	<u>334,368</u>	<u>330,000</u>	<u>4,368</u>
<b>EXPENSES</b>			
Gate Repairs	262,855	82,147	(180,708)
Asphalt Repairs	27,243	51,334	24,091
	<u>290,098</u>	<u>133,481</u>	<u>(156,617)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<b>\$ <u>44,270</u></b>	<b>\$ <u>196,519</u></b>	<b>\$ <u>(152,249)</u></b>

(See Independent Auditors' Report)