# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019

CERTIFIED PUBLIC ACCOUNTANTS

# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

INDEX TO REPORT

DECEMBER 31, 2019

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of
Empire Pass Master Owners Association, Inc.
Kamas, Utah

## Report on the Financial Statements

We have audited the accompanying financial statements of Empire Pass Master Owners Association, Inc., which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balances, 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 association'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 association'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.

1200 Market Street, Chattanooga, TN 37402 | T 423.756.7771 | F 423.265.8125

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Empire Pass Master Owners Association, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other 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 are adequate to meet such future costs because that determination is outside the scope of our audit.

**Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information, schedule of future major repairs and replacements, on page 17, 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.

**Report on Summarized Comparative Information**

We have previously audited the Empire Pass Master Owners Association, Inc.'s December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Chattanooga, Tennessee
June 10, 2020

Henderson Hutcherson
& McCullough, PLLC

# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2019

## ASSETS

| | 2019 | | | 2018 |
|---|---|---|---|---|
| | Operating Fund | Major Repairs and Replacements Fund | Total | Total (for Comparative Purposes Only) |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 2,675,391 | $ 914,523 | $ 3,589,914 | $ 4,274,825 |
| Restricted cash | 655,425 | - | 655,425 | 392,153 |
| Assessment receivables | 3,539 | - | 3,539 | 26,544 |
| Other receivables | 151,375 | - | 151,375 | 53,192 |
| Related party receivables | - | - | - | 23,000 |
| Prepaid expenses | 167,362 | - | 167,362 | 182,694 |
| Property and equipment, net | 1,473,377 | - | 1,473,377 | 1,084,292 |
| **TOTAL ASSETS** | $ 5,126,469 | $ 914,523 | $ 6,040,992 | $ 6,036,700 |

## LIABILITIES AND FUND BALANCES

| | Operating Fund | Major Repairs and Replacements Fund | Total | Total (for Comparative Purposes Only) |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Accounts payable | $ 90,960 | $ - | $ 90,960 | $ 58,760 |
| Accrued expenses | 32,144 | - | 32,144 | 55,050 |
| Related party payables | 9,988 | - | 9,988 | - |
| Deposits payable | 406,425 | - | 406,425 | 392,153 |
| Reinvestment fees refund payable | 249,000 | - | 249,000 | - |
| Capital lease obligation | 498,140 | - | 498,140 | 498,245 |
| Contract liabilities - assessments received in advance | 821,578 | 43,173 | 864,751 | 1,048,252 |
| **TOTAL LIABILITIES** | 2,108,235 | 43,173 | 2,151,408 | 2,052,460 |
| **FUND BALANCES** | 3,018,234 | 871,350 | 3,889,584 | 3,984,240 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 5,126,469 | $ 914,523 | $ 6,040,992 | $ 6,036,700 |

**EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2019

| | 2019 | | | 2018 |
|---|---|---|---|---|
| | Operating Fund | Major Repairs and Replacements Fund | Total | Total (for Comparative Purposes Only) |
| **REVENUES** | | | | |
| Member assessments | $ 1,299,725 | $ 124,433 | $ 1,424,158 | $ 1,582,338 |
| Reinvestment fees | 526,867 | - | 526,867 | 1,076,555 |
| Design review board fees | 37,500 | - | 37,500 | 55,000 |
| Interest income | 58,277 | 17,488 | 75,765 | 17,616 |
| Historic preservation contributions | 120,000 | - | 120,000 | - |
| Miscellaneous income | 111,391 | - | 111,391 | 88,062 |
| Total revenues | 2,153,760 | 141,921 | 2,295,681 | 2,819,571 |
| **EXPENSES** | | | | |
| Administrative | 31,073 | - | 31,073 | 28,373 |
| Bad debt expense | - | - | - | 1,580 |
| Depreciation | 135,212 | - | 135,212 | 95,141 |
| Design review board | 10,511 | - | 10,511 | 17,565 |
| Historic preservation | 116,372 | - | 116,372 | - |
| Income tax expense | 192 | - | 192 | 2,846 |
| Insurance | 53,234 | - | 53,234 | 49,679 |
| Interest expense | 29,895 | - | 29,895 | 29,914 |
| Management fees | 42,630 | - | 42,630 | 41,688 |
| Maintenance and repairs | 43,899 | - | 43,899 | 46,244 |
| Outside transportation | 818,243 | - | 818,243 | 810,730 |
| Payroll | 457,811 | - | 457,811 | 377,518 |
| Professional fees | 18,695 | - | 18,695 | 57,844 |
| Rent expense | 9,410 | - | 9,410 | 8,271 |
| Road | 142,745 | - | 142,745 | 83,097 |
| Security | 69,865 | - | 69,865 | 87,562 |
| Utilities | 15,191 | - | 15,191 | 13,459 |
| Vehicle | 128,798 | - | 128,798 | 159,786 |
| Reserve expenses | - | 266,561 | 266,561 | 132,473 |
| Total expenses | 2,123,776 | 266,561 | 2,390,337 | 2,043,770 |
| **EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENSES** | 29,984 | (124,640) | (94,656) | 775,801 |
| **FUND BALANCES** | | | | |
| January 1 | 3,188,250 | 795,990 | 3,984,240 | 3,208,439 |
| Interfund transfers | (200,000) | 200,000 | - | - |
| **FUND BALANCES** | | | | |
| December 31 | $ 3,018,234 | $ 871,350 | $ 3,889,584 | $ 3,984,240 |

The accompanying notes are an integral part of these statements.

# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

| | 2019 | | | 2018 |
|---|---|---|---|---|
| | Operating Fund | Major Repairs and Replacements Fund | Total | Total (for Comparative Purposes Only) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Excess (deficit) of revenues over (under) expenses | $ 29,984 | $ (124,640) | $ (94,656) | $ 775,801 |
| Adjustments to reconcile excess (deficit) of revenues over (under) expenses to cash from operating activities: | | | | |
| Depreciation | 135,212 | - | 135,212 | 95,141 |
| Changes in operating assets and liabilities: | | | | |
| Assessment receivables | 23,005 | - | 23,005 | 3,978 |
| Other receivables | (98,183) | - | (98,183) | (46,148) |
| Due to/from related parties | 32,988 | - | 32,988 | (6,414) |
| Prepaid expenses | 15,332 | - | 15,332 | 18,031 |
| Accounts payable | 32,200 | - | 32,200 | (19,459) |
| Accrued expenses | (22,906) | - | (22,906) | (11,608) |
| Deposits payable | 14,272 | - | 14,272 | (54,122) |
| Reinvestment fees refund payable | 249,000 | - | 249,000 | - |
| Contract liabilities - assessments received in advance | (136,044) | (47,457) | (183,501) | (34,679) |
| Net cash from operating activities | 274,860 | (172,097) | 102,763 | 720,521 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchases of property and equipment | (524,297) | - | (524,297) | (51,032) |
| Net cash from investing activities | (524,297) | - | (524,297) | (51,032) |

(Continued)

# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2019

| | 2019 | | | 2018 |
|---|---|---|---|---|
| (Continued) | Operating Fund | Major Repairs and Replacements Fund | Total | Total (for Comparative Purposes Only) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Change in interfund (payable) receivable | (31,223) | 31,223 | - | - |
| Interfund transfer | (200,000) | 200,000 | - | - |
| Principal payments on capital lease obligation | (105) | - | (105) | (99) |
| Net cash from financing activities | (231,328) | 231,223 | (105) | (99) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | (480,765) | 59,126 | (421,639) | 669,390 |
| Cash and cash equivalents, beginning of year | 3,811,581 | 855,397 | 4,666,978 | 3,997,588 |
| Cash and cash equivalents, end of year | $ 3,330,816 | $ 914,523 | $ 4,245,339 | $ 4,666,978 |
| **SUMMARY OF CASH ACCOUNTS** | | | | |
| Cash and cash equivalents | $ 2,675,391 | $ 914,523 | $ 3,589,914 | $ 4,274,825 |
| Restricted cash | 655,425 | - | 655,425 | 392,153 |
| | $ 3,330,816 | $ 914,523 | $ 4,245,339 | $ 4,666,978 |

| | 2019 | 2018 |
|---|---|---|
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid for interest | $ 29,895 | $ 29,901 |
| Cash paid for income taxes on non-exempt income | $ - | $ 2,702 |

## NOTE 1 – NATURE OF ORGANIZATION

Empire Pass Master Owners Association, Inc. (the Association) was organized in the state of Utah as a nonprofit corporation in 2002 to function as the master property owners association for a 1,500-acre planned community. The purpose of the Association is to maintain, operate, manage and preserve common property of residential, recreational, and other areas. The Association is supported primarily through annual member assessments, reinvestment fees, maintenance services, and architectural review board fees. As of December 31, 2019, the Association consisted of Northside Village Subdivision (10 single family units), Red Cloud Subdivision (30 single family units), Bannerwood Subdivision (6 single family units), Shooting Star Subdivision (21 condominium units), Paintbrush Subdivision (12 clusterhomes), Larkspur Subdivision (27 townhomes), Ironwood Subdivision (23 townhomes), Nakoma Subdivision (17 clusterhomes), Grand Lodge Subdivision (28 condominium units), Arrow Leaf Subdivision (56 condominium units), Belles at Bannerwood (17 clusterhomes), Flagstaff Subdivision (37 condominium units), Silver Strike Subdivision (34 condominium units), and One Empire Pass (27 condominium units). Additionally, Montage Residences homeowners are not members of the Association, but they are subject to a reduced annual assessment and the reinvestment fees discussed in Note 2. Each of the subdivisions (with the exception of Northside Village Subdivision) is governed by a separate homeowners' association whose governing documents are subordinate to the governing documents of the Association.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), and using general practices in the Common Interest Realty Association industry.

### Adoption of New Accounting Standard

On January 1, 2019, the Association adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, Accounting Standards Codification (ASC) 606). The Association's primary operations fall within the scope of ASC 606.

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration that the Association expects to receive in exchange for those goods or services. The principles apply a five-step model that includes: (1) identifying the contract(s) with the customer; (2) identifying the performance obligation(s) in the contract(s); (3) determining the transaction price; (4) allocating the transaction price to the performance obligation(s) in the contract(s); and (5) recognizing revenue as the performance obligation(s) are satisfied. The standard also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Association does not include the cost of obtaining contracts within the related revenue streams. It has expensed the costs to obtain a contract when incurred.

(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Adoption of New Accounting Standard** (Continued)

The Association expects similar performance obligations to result under the new revenue standard as compared with prior GAAP and have identified material revenue streams to be: (1) maintaining, operating, managing and preserving common property of residential and recreation areas belonging to the Association, both through annual assessments and reinvestment fees, and (2) providing design review of capital improvements within the Association to ensure preservation of the natural beauty of the surrounding landscape and generate a unified community design within the Association.

Performance conditions are satisfied throughout the year as it pertains to annual assessments for maintaining, operating, managing and preserving common property throughout the Association, which includes funding for current and future major repairs and replacements, because the Association members simultaneously receive and consume the benefit of dues paid to the Association, with no right to refund of any surplus of revenues over expenses. Reinvestment fees used to enhance services to Association members are recognized as revenue as respective properties are sold. Design review fees are recorded as revenue when earned during the review process.

The Association does not have any revenue streams with significant financing components as payments are received within a short period of time following or in conjunction with completion of the performance obligation.

**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*: Used to account for financial resources available for the general operations of the Association.

*Major Repairs and Replacements Fund*: Used to account for financial resources designated for future major repairs and replacements of common property of the Association.

**Reinvestment Fees**

Upon the sale or resale of a lot or parcel, the Association assesses to the purchaser a one-time reinvestment fee equal to one percent (1%) of the gross sales price of the property. Upon approval by the board of directors, this reinvestment fee may be increased to a maximum of two percent (2%). The Association is obligated to remit fifty percent (50%) of this fee to Park City Municipal Corporation (PCMC) to help fund the expenses for improved transportation, recreation improvements, and other maintenance costs. The remainder of the reinvestment fee is used by the Association to supplement assessments and to enhance its services to members, and are recorded as revenue as properties are sold.

(Continued)

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Annual Member Assessments**

Association members are subject to annual member assessments to provide funds for the Associations' operating expenses, future capital acquisitions, and major repairs and replacements.

Such expenses may include expenses of management, real property taxes, insurance premiums, repairs and maintenance, wages, utilities, legal and accounting fees, deficits remaining from a previous period (if any), creation of an adequate contingency reserve, creation of an adequate reserve for major repairs and replacement, and any other expenses and liabilities allowed by the governing documents. The Association is dependent upon the receipt of members' annual assessments for operating and replacement expenditures. Assessments receivable at the balance sheet date represent fees due from lot owners. The Association's policy is to charge late fees on delinquent assessments, recognizing late fees when incurred. The Association determines an allowance for doubtful accounts based on the status of each delinquent account. See Note 5 for further details.

**Special Member Assessments**

In addition to basic member assessments, the Association may levy special assessments at any time upon the affirmative vote of at least 67% of total votes of Association members. These assessments may be used for construction, reconstruction, repair or replacement of capital improvements, or for any other extraordinary expenses incurred by the Association. For the year ended December 31, 2019, there were no special assessments.

**Design Review Board Fees**

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 is determined by the DRB, and is recorded as revenue when earned during the review process, which typically coincides with when payment is collected.

**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, as well as certificates of deposit held in brokerage accounts where liquidation on the open market is readily available with limited fluctuation in fair value due to their short term duration.

**Prepaid Expenses**

Prepaid expenses consist primarily of insurance premiums, lease payments, and deposits on rental vehicles and equipment paid in advance.

(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Property and Equipment**

Real and common area property acquired from the developer, as well as replacements and improvements to such property are not capitalized on the Association's financial statements because those properties are owned by the individual members in common and not by the Association.

The Association only recognizes common property and equipment as assets on its balance sheet which it owns, having title or other evidence of ownership wherein the board of directors has the right to dispose of the property at its discretion. Maintenance, repairs, and renewals, which neither materially add to the value of the capitalized assets nor appreciably prolong their lives, are charged to expense as incurred. Gains or losses from the sale or retirement of such property and equipment are included in the statement of revenues, expenses, and changes in fund balances. Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method. Useful lives of capitalized property and equipment range from 3 to 30 years.

**Contract Liabilities – Assessments Received in Advance**

Assessments are billed to the members in advance of the period in which the budgeted expenses are to be incurred. Those assessments received in advance of the period for which they were assessed are shown in the accompanying financial statements as a contract liability. Assessments are recognized as revenue as they are earned throughout the year.

**Income Taxes**

Generally, associations are taxed as regular corporations or, if they qualify, may elect to be taxed as a homeowners association. For the year ended December 31, 2019, the Association elected to receive exemption from federal and state income taxes as a homeowners association under certain provisions of the Internal Revenue Code. Some sources of revenue (such as interest income), however, are not exempt and taxed at statutory rates.

The Association follows the guidance for uncertainty in income taxes using the provisions of ASC Topic 740, *Income Taxes*. Using this guidance, tax positions should be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently should be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. Based on its evaluation, the Association has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

(Continued)

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Contingent Risk Regarding Cash and Cash Equivalents Balance**

The Association maintains its cash and cash equivalents in bank accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) up to certain limits. The Association has not experienced any loss or lack of access in such accounts and believes it is not exposed to any significant credit risk.

**Use of Estimates**

The presentation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comparative Totals for 2018**

The 2018 total columns in the financial statements are for comparison 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, 2018, from which the summarized information was derived.

**Recent Accounting Pronouncements**

In February 2016, the Financial Accounting Standards Board (FASB) issued its new lease accounting guidance in ASU No. 2016-02, *Leases* (ASC Topic 842), which supersedes ASC Topic 840, *Leases*. Under the new guidance, lessees will be required to recognize at the commencement date for all leases (with the exception of lease terms of 12 months or less for which there is not an option to purchase the underlying asset): (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis' and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The standard will be effective for fiscal years beginning after December 15, 2022, with early application permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective approach. The Association is currently evaluating the effect that the updated standard will have on the financial statements.

## NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2019:

| | Operating Fund | Major Repairs & Replacements Fund | Total |
|---|---|---|---|
| Cash | $ 799,312 | $ 190,281 | $ 989,593 |
| Certificate of deposits | 1,876,079 | 724,242 | 2,600,321 |
| | $ 2,675,391 | $ 914,523 | $ 3,589,914 |

## NOTE 4 – RESTRICTED CASH

The Association requires property owners to pay a compliance deposit before commencing construction as a security deposit for full and faithful performance of the building project. Deposits are to be returned to the owners within 30 days of issuance of the notice of completion from the DRB. The Association held deposits in the amount of $299,000 which are recorded as both deposits payable and restricted cash in the accompanying balance sheet as of December 31, 2019.

Prior to construction, the Association collects a sign deposit from construction contractors in order to ensure that construction signage is removed by the contractor upon completion of the project. The deposit is $1,000 per lot or property. The Association refunds $500 to the contractor upon project completion. As of December 31, 2019, the Association held sign deposits in the amount of $4,500 which are recorded as both deposits payable and restricted cash in the accompanying balance sheet.

The Association owes amounts to PCMC representing one-half of the 1% reinvestment fee that is collected by the Association upon the sale/resale of properties within the Association. As of December 31, 2019, the balance due to PCMC was $102,925, which is recorded as both deposits payable and restricted cash in the accompanying balance sheet.

In October 2019 the Association collected $249,000 of reinvestment fees on properties which were not subject to the 1% reinvestment fee at the time of sale, refunding the buyers these fees in 2020.

In summary, restricted cash and deposits payable consisted of the following as of December 31, 2019:

| | Restricted Cash | Reinvestment Fees Refund Payable | Deposits Payable |
|---|---|---|---|
| Compliance deposits | $ 299,000 | $ - | $ 299,000 |
| Sign deposits | 4,500 | - | 4,500 |
| Restricted cash payable to PCMC | 102,925 | - | 102,925 |
| Reinvestment fees refund payable | 249,000 | 249,000 | - |
| | $ 655,425 | $ 249,000 | $ 406,425 |

## NOTE 5 – ASSESSMENT RECEIVABLES

As of December 31, 2019, there were $3,539 in assessment receivables, for which no allowance for uncollectible accounts had been established. Assessments are considered delinquent when payment has not been received within 30 days of the invoice date. The amounts of any specific allowance is estimated by management based on various assumptions including the member's financial position, age of the member's receivables, and changes in payment schedules and histories. Account balances are charged off against the allowance for uncollectible accounts from members when the potential for recovery is remote. Recoveries of receivables previously charged off are recorded when payment is received.

## NOTE 6 – SUBSIDY RECEIVABLE/INCOME

During the period of developer control, the Association's governing documents require the developer to subsidize the Association's operating expenses in excess of operating revenues which is recognized as subsidy income. Given the current year operating surplus, no amount was recognized as subsidy income for the year ended December 31, 2019. Lenders foreclosed upon most of the real property assets of the original developer in late 2015, at which time declarant rights passed from the original declarant to a new declarant, Redus Park City, LLC (Redus). In 2018, Storied Deer Valley, LLC (Storied Deer Valley) acquired several properties at Empire Pass from Redus. In accordance with that transaction, Storied Deer Valley became a co-declarant with Redus. Storied Deer Valley is a wholly-owned subsidiary of SDBP Utah I, LLC (SDBP), which is a holding company that operates through various wholly-owned subsidiaries (see Note 11).

## NOTE 7 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate bank accounts and generally are not available for expenditures for normal operations. The Association's board authorized Complex Solutions Ltd. 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 in September 2017. Refer to the supplementary schedule on page 17 for further details.

Actual expenditures and interest income may vary from the reserve study estimates and the variations may be material; therefore, amounts accumulated in the Major Repairs and Replacements 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, make special assessments, or delay major repairs and replacements until funds are available.

## NOTE 8 – PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of December 31, 2019, are summarized as follows:

| | |
|---|---|
| Buildings and improvements | $ 554,879 |
| Land | 50,000 |
| Land improvements | 50,896 |
| Machinery and equipment | 1,495,316 |
| Vehicles | 167,713 |
| | 2,318,804 |
| Less accumulated depreciation | (845,427) |
| | $ 1,473,377 |

Depreciation expense for the year ended December 31, 2019 was $135,212.

## NOTE 9 – CAPITAL LEASE

The Association leases warehouse, garage, and yard space under an agreement that is classified as a capital lease. The Association entered the ninety-nine year agreement in 2017. The cost of these assets under capital leases are included in the balance sheet as buildings and land, and amortization of the building portion of the capital lease is included in depreciation expense. The agreement specifies annual installment payments of $30,000 per year (due each December) and has an imputed interest rate of 6%.

Future minimum lease payments required under existing capital leases as of December 31, 2019 are as follows:

| | |
|---|---|
| 2020 | $ 30,000 |
| 2021 | 30,000 |
| 2022 | 30,000 |
| 2023 | 30,000 |
| 2024 | 30,000 |
| Thereafter | 2,730,000 |
| | 2,880,000 |
| Less amount representing interest | (2,381,860) |
| | $ 498,140 |

The leased warehouse, garage and yard space has a capitalized value of $498,438 and related accumulated amortization of $37,538 as of December 31, 2019.

## NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Association may be involved in legal proceedings from time to time arising in the normal course of its activities. Management is not aware of any such matters which it believes will have a material adverse impact on the Association's financial position, results of operations, or liquidity.

## NOTE 11 – 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.

As part of a transaction involving property at Empire Pass, Storied Deer Valley became a co-declarant with Redus in January 2018. Storied Deer Valley is a wholly-owned subsidiary of SDBP Utah I, LLC (SDBP), which is a holding company that operates through various wholly-owned subsidiaries. The Association enters into various cost reimbursement arrangements with SDBP's various subsidiaries on a daily basis. As of December 31, 2019, $21,601 was included in accrued expenses for employee wages payable to SDBP's subsidiaries on behalf of the Association, while $9,874 due from such subsidiaries was included in other receivables. Total payroll cost reimbursements paid to SDBP's subsidiaries during the year ended December 31, 2019 were $458,027, while expense reimbursements, maintenance service and design review board fees received totaled $37,502.

The Association also shares certain services and supply costs with Tuhaye Home Owners Association (Tuhaye). As of December 31, 2019, net amounts payable from the Association to Tuhaye totaled $13,145.

Since July 2018, the Association's management company is Storied Management, LLC (Storied Management), a wholly-owned subsidiary of Storied Deer Valley. Fixed monthly fees under this agreement began at $3,500 per month for the first twelve months, plus reimbursement of any costs associated with compensation of personnel performing work for the exclusive benefit of the Association. Fees are increased by 3% each year of renewal. The term of the agreement is twelve months and can be renewed automatically in twelve-month increments. The Association can terminate this management contract with 30-day written notice. For the year ended December 31, 2019, management fees expense was $42,630.

## NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to December 31, 2019 through the date of the independent auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Except for the matters discussed in the following paragraphs, management has not identified any other items that required recognition or additional disclosure in these financial statements.

Subsequent to December 31, 2019, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. While management cannot quantify the financial impacts to the Association as of the date of the independent auditor's report, management believes that a material impact on the Association's financial position and results of future operations is reasonably possible.

(Continued)

**NOTE 12 – SUBSEQUENT EVENTS** (Continued)

In March 2020, the Association signed a Memorandum of Agreement (MOA) with the PCMC, wherein the PCMC agreed to forgo on a one time basis, $120,000 of Open Space/Transit Management Fee (OSTM Fee) proceeds, to instead be contributed to the Association's segregated historic preservation fund. Thus the $102,925 of restricted cash described in Note 4 as payable to the PCMC will be classified by the Association as historic preservation income in 2020, in order to offset future costs incurred by the Association to preserve the Judge Mining & Smelting building and related area. Also included in this MOA was formal written agreement by various developers to contribute funds to the Association for this historic preservation. Namely, Storied Deer Valley and Redus Park City, LLC each agreed to contribute $40,000, and Lot 2 Empire Pass North LLC and Sommet Blanc Residences 1 LLC each agreed to contribute $20,000, for a total developer contribution of $120,000. Because it was determined that oral agreements with these various developers existed as of December 31, 2019, the Association recognized the $120,000 of developer contributions as historic preservation contribution income in 2019, and is included in other receivables on the balance sheet at December 31, 2019.

# SUPPLEMENTARY INFORMATION

# EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

DECEMBER 31, 2019

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The Association's board authorized Complex Solutions, Ltd. to complete a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property. The study, including a site visit, was completed in September 2017. The estimates are based on estimated replacement costs over the next 30 years. Funding requirements are based on an annual inflation rate of 3.00 percent and an interest rate of 0.1 percent on the amounts funded for future major repairs and replacements.

| Components | Estimated Remaining Useful Lives (Years) | Average Estimated Replacement Costs |
|---|---|---|
| Asphalt – Twisted Branch – Major Rehab | 4 | $ 295,050 |
| Asphalt – Empire Pass – Major Rehab | 2 | 163,231 |
| Bridge & Pole Lights – Replace | 6 | 157,500 |
| Bridges Surfaces – Refurbish | 5 | 125,000 |
| Asphalt – Red Cloud – Major Rehab | 3 | 97,519 |
| Asphalt – Red Cloud Trail 2016 – Major Rehab | 12 | 87,500 |
| Asphalt – Silver Strike Trail – Major Rehab | 12 | 54,775 |
| Asphalt – Twisted Branch – Slurry Seal | 0 | 33,720 |
| Asphalt – Slurry Seal | 0 | 33,460 |
| Wood surfaces – Stain | 0 | 20,000 |
| Curbing – Partial Replace | 0 | 20,000 |
| Asphalt – Northside Court – Major Rehab | 7 | 17,588 |
| Asphalt – 2018 – Slurry Seal | 0 | 16,375 |
| Asphalt – Banner Court – Major Rehab | 5 | 15,444 |
| Asphalt – Crack Seal | 0 | 11,000 |
| Metal Bridge – Maintenance | 0 | 11,000 |
| Stone Veneer – Repairs | 0 | 10,000 |
| Monument Signs – Refurbish | 5 | 9,750 |
| Fire Hydrants – Repair/Replace | 2 | 5,000 |
| Retaining Walls – Repair | 0 | 5,000 |
| Water Lines – Repair | 0 | 5,000 |
| Sign Posts – Install/Replace | 0 | 2,000 |
| Guard Rails – Repair | 0 | 2,000 |
| Camera System – Replace | 1 | 1,700 |
| Sign Posts – Repaint | 0 | 1,000 |
| | | $ 1,200,612 |