

**TRAVERSE MOUNTAIN MASTER
OWNERS ASSOCIATION, INC.**

AUDIT OF FINANCIAL STATEMENTS

December 31, 2016

together with

REPORT OF INDEPENDENT AUDITORS

TRAVERSE MOUNTAIN MASTER OWNERS ASSOCIATION, INC.

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MELLOR & ASSOCIATES PLLC
EXPERIENCED, MULTI-TOOLED PROFESSIONALS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Members
Traverse Mountain Master Owners Association, Inc.

We have audited the accompanying financial statements of Traverse Mountain Master Owners Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. Information for the year ended December 31, 2015, is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which other auditors expressed an unqualified opinion in their report dated September 23, 2016.

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.

To the Board of Directors
Traverse Mountain Master Owners Association, Inc.
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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 the Association as of December 31, 2016, 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.

Other

Management has omitted required supplementary information regarding future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Mellor and Associates PLLC

Mellor & Associates, PLLC
Salt Lake City, Utah
May 16, 2018

FINANCIAL STATEMENTS

Traverse Mountain Master Owners Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances

For the Year Ended December 31, 2016

	2016					2015	
	Operating Fund	Community Activities Fund	Capital Projects Fund	Reserve Fund	Pool/Clubhouse Fund	Total	Total for Comparative Purposes Only
Revenues							
Member assessments, net	\$ 1,497,723	\$ -	\$ -	\$ -	\$ -	\$ 1,497,723	\$ 1,335,429
Late fees	16,859	-	-	-	-	16,859	11,977
Set up fees	29,378	-	-	-	-	29,378	25,860
Community enhancement fees	-	192,560	221,918	-	-	414,478	174,655
Miscellaneous income	23,140	-	-	-	8,103	31,243	(940)
Violation fee income	10,000	-	-	-	-	10,000	8,275
Interest income	311	-	-	-	-	311	392
Total Revenues	1,577,411	192,560	221,918	-	8,103	1,999,992	1,555,648
Expenses							
Administrative	22,794	-	-	-	-	22,794	16,060
Bad debt (recovery) expense	(4,234)	-	-	-	-	(4,234)	(8,972)
Capital projects	-	-	3,911,859	-	-	3,911,859	1,593,199
Community activities	-	75,649	-	-	-	75,649	78,982
Depreciation	17,883	-	-	-	-	17,883	15,822
Insurance	28,479	-	-	-	-	28,479	32,045
Interest expense	-	-	189,649	-	-	189,649	17,365
Miscellaneous	12,112	-	-	-	-	12,112	6,984
Payroll	459,882	-	-	-	-	459,882	426,643
Professional fees	28,156	-	-	-	-	28,156	64,385
Rent	39,420	-	-	-	-	39,420	39,908
Repairs and maintenance	191,450	-	-	-	-	191,450	237,379
Reserve expenses	-	-	-	13,644	-	13,644	142,158
Utilities	30,509	-	-	-	-	30,509	27,639
Pool/Clubhouse expenses	-	-	-	-	136,441	136,441	-
Total Expenses	826,451	75,649	4,101,508	13,644	136,441	5,153,693	2,689,597
Excess (deficiency) of revenues over expenses	750,960	116,911	(3,879,590)	(13,644)	(128,338)	(3,153,701)	(1,133,949)
Interfund transfers	(484,300)	(44,500)	528,800	-	-	-	-
Beginning Fund Balances	95,493	22,289	(1,035,300)	309,026	-	(608,492)	525,457
Ending Fund Balances	\$ 362,153	\$ 94,700	\$ (4,386,090)	\$ 295,382	\$ (128,338)	\$ (3,762,193)	\$ (608,492)

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

Traverse Mountain Master Owners Association, Inc.

Statement of Cash Flows

For the Year Ended December 31, 2016

	2016				2015		
	Operating Fund	Community Activities Fund	Capital Projects Fund	Reserve Fund	Pool/Clubhouse Fund	Total	2015 Total for Comparative Purposes Only
Operating Activities							
Excess (deficiency) of revenues over expenses	\$ 750,960	\$ 116,911	\$ (3,879,590)	\$ (13,644)	\$ (128,338)	\$ (3,153,701)	\$ (1,133,949)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:							
Depreciation	17,883	-	-	-	-	17,883	15,822
Capital project expenses	-	-	3,459,868	-	-	3,459,868	1,404,642
(Increase) decrease in assets:							
Assessments receivable	(13,472)	-	-	-	-	(13,472)	9,025
Interfund payable/receivable	(240,453)	(78,399)	148,978	27,177	142,697	-	-
Prepays	-	-	-	-	-	-	-
(Decrease) increase in liabilities:							
Accounts payable	52,740	-	-	-	-	52,740	(9,010)
Deposits payable	(4,350)	-	-	-	1,577	(2,773)	78,762
Deferred revenue	(2,954)	-	-	-	-	(2,954)	2,531
Net cash provided by (used for) operating activities:	560,354	38,512	(270,744)	13,533	15,936	357,591	367,823
Investing Activities							
Net change in certificates of deposit	-	-	-	-	-	-	-
Payments to purchase common property	(24,869)	-	-	-	-	(24,869)	(6,282)
Net cash provided by investing activities	(24,869)	-	-	-	-	(24,869)	(6,282)

Traverse Mountain Master Owners Association, Inc.

Statement of Cash Flows (Continued)

For the Year Ended December 31, 2016

	2016					2015	
	Operating Fund	Community Activities Fund	Capital Projects Fund	Reserve Fund	Pool/Clubhouse Fund	Total	Total for Comparative Purposes Only
Financing Activities							
Principle payments on notes payable	-	-	(276,111)	-	-	(276,111)	(324,221)
Interfund transfers	(484,300)	(44,500)	528,800	-	-	-	-
Net cash (used for) provided by financing activities	(484,300)	(44,500)	252,689	-	-	(276,111)	(324,221)
Net (decrease) increase in cash	51,185	(5,988)	(18,055)	13,533	15,936	56,611	37,320
Cash at beginning of year	139,200	22,289	152,310	309,432	-	623,231	585,911
Cash at end of year	<u>\$ 190,385</u>	<u>\$ 16,301</u>	<u>\$ 134,255</u>	<u>\$ 322,965</u>	<u>\$ 15,936</u>	<u>\$ 679,842</u>	<u>\$ 623,231</u>
Cash	160,085	16,301	134,255	322,965	15,936	649,542	588,602
Restricted cash	30,300	-	-	-	-	30,300	34,629
	<u>\$ 190,385</u>	<u>\$ 16,301</u>	<u>\$ 134,255</u>	<u>\$ 322,965</u>	<u>\$ 15,936</u>	<u>\$ 679,842</u>	<u>\$ 623,231</u>

Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

Income taxes

Interest

	2016	2015
Income taxes	\$ -	\$ -
Interest	\$ 189,649	\$ 17,365

Non-cash items financed with debt:

Capital project expenses

Capital project expenses	\$ 3,459,868	\$ 1,404,642
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During the current year ended December 31, 2016, the HOA disposed of full depreciated property and equipment in the amount of \$7,654.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Business Activity

Traverse Mountain Master Owners Association, Inc. (the Association) was organized in 2002 as a not-for-profit corporation to function as the master property owners association for a 2,771 acre planned community located in Lehi, Utah. At full development, it is anticipated that the Association will collectively govern several neighborhoods, subdivisions, condominium developments, townhouse developments, planned unit developments, and certain recreational areas. As of December 31, 2016, the Association consisted of 1,763 units.

2. 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:

- a) *Operating Fund* – used to account for financial resources available for the general operations of the Association.
- b) *Community Activities Fund* – used to accumulate financial resources designated for community activities and events.
- c) *Capital Projects Fund* – used to accumulate financial resources designated for additions to and improvements of common property.
- d) *Reserve Fund* – used to accumulate financial resources designated for future major repairs and replacements of common property.
- e) *Pool/Clubhouse Fund* – used to accumulate financial resources designated for the operations of the pool and the clubhouse.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. 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.

4. 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.

5. Special Member Assessments

In addition to the basic member assessment, the Association may levy special assessments at any time upon the affirmative vote of a majority of the neighborhood representatives. 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, 2016, there were no special assessments that were assessed the Association's members.

6. Community Enhancement Fees

The Association charges a community enhancement fee for all unit ownership transfers. These assessments may be used for construction, reconstruction, repair or replacement and capital improvements, or other extraordinary expenses incurred by the Association.

7. Fair Value of Financial Instruments

The Association's financial instruments consist of cash, receivables, prepaids and other receivables, payables and accruals. The carrying amount of cash, receivables, prepaids and other receivables, payables and accruals approximates fair value because of the short-term nature of these items. The carrying amount of notes payable approximates fair value as the payables bear interest at market rates.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. 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 in excess of \$1,000.

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.

9. 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.

10. Receivable from Members and Allowance for Bad Debt

As of December 31, 2016, the Association had recorded \$61,833 in assessments receivable for which an allowance for uncollectible accounts of \$28,235 has been recorded. 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 is assessed. Each additional 30 thirty days delinquency is assessed a late fee in the amount of \$40. The Association also retains legal counsel and places liens on the properties of members whose assessments are one hundred-ten days or more delinquent. The Association charges off uncollectible accounts when management estimates no possibility of collecting the related receivable.

11. Income Taxes

As of December 31, 2016, the Association has elected to file its income tax return as a homeowners' association in accordance with code section 528 of the internal revenue code. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenues from uniform assessments from members.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Income Taxes (Continued)

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.

12. 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. As of December 31, 2016, deferred revenue totaled \$50,556.

13. 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.

14. 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, 2016, the Association had deposits of \$192,661 in excess of 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.

15. Comparative Totals for 2015

The 2015 total columns 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, 2015, from which the summarized information was derived.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Interfund Transactions

During the 2016 budgeting process, the Board approved a transfer of funds from the operating fund totaling \$695,500 to the community activities, capital projects, pool/clubhouse, and reserve funds.

NOTE B – 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 HOA Consultants to complete a reserve study in March of 2011 for the period of January 1, 2010 through December 31, 2010, to estimate the remaining useful lives and the replacement costs of the components of common property. The Association's board has not updated the reserve study for the period of January 1, 2016 through December 31, 2016. Accordingly, required supplementary information regarding future major repairs and replacements is not presented. However, the Association has budgeted for \$30,000 in reserve fund contributions from community enhancement fees in 2017. Actual expenditures and interest income may vary from the current estimates and the variations may be material. Therefore, amounts accumulated in the reserve 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. As of the date of this report, management was in the process of obtaining an updated reserve study.

NOTE C – RESTRICTED CASH

The Association collects damage deposits when any new homeowner is required to repair, construct or update any part of the homeowner's property. The deposit amount varies based on the work to be performed. The Association collects the deposit and approves the work to be performed. Upon completion of the work, the Association inspects the surrounding common property for any damage. Upon approval from management, the Association refunds the deposit to the homeowner. These deposits are maintained in a separate bank account and are shown as restricted cash and deposits payable on the balance sheet.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE D – COMMON PROPERTY

Common property at December 31, 2016 consists of equipment and furnishings owned by the Association for the use and benefit of the Association's members. Equipment and furnishings are depreciated on a straight-line basis over periods of three to twenty years.

Equipment and furnishings	\$	183,168
Accumulated depreciation		(138,458)
	\$	<u>44,710</u>

Depreciation expense for the year ended December 31, 2016 was \$17,883.

NOTE E – DEBT

In March of 2015, the Association obtained a \$4,400,000 promissory note with a financial institution for the construction of a new clubhouse and recreation facility (“Vista Ridge Park”) on the common property of the Association. The promissory note bears interest at prime plus 3.00% (6.75% as of December 31, 2015). The monthly payment amount is \$37,954 beginning on April 15, 2015 and will continue until March 15, 2030, unless the lender demands satisfaction of full payment. During the year ended December 31, 2016, \$3,459,868 was drawn down and repayments of \$276,111 were made. The promissory note continued to be drawn down into 2017 as the construction of the new clubhouse and recreational facility building was ongoing until mid-2016. The balance of the promissory note as of December 31, 2016 is \$4,264,178.

Aggregate maturities of debt are summarized as follows:

	Principal
2017	\$ 237,112
2018	252,363
2019	268,595
2020	285,872
2021	303,024
Thereafter	<u>2,917,212</u>
Total	<u>\$ 4,264,178</u>

As stated in note A, common property including real property such as the clubhouse and recreational facility building are not capitalized and recorded in the Association’s financial statements. The deficit equity balance shown on the balance sheet on Page 4 in the Capital Projects Fund is a result of this property being expensed and the outstanding debt being recorded as a liability. The deficit equity balance is expected to decrease as the debt payments are financed by using member assessments determined by the Board of Directors.

Traverse Mountain Master Owners Association, Inc.

Notes to Financial Statements

For the Year Ended December 31, 2016

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NOTE F – ASSESSMENT DISCOUNTS

During 2016, the Association offered homeowners a monthly discount for allowing the Association to automatically withdraw monthly assessments directly from homeowner bank accounts. These discounts are applied to the operating portion of the monthly assessment. Operating assessment revenues for the year are shown net of related discounts at year end.

Member Operating Assessments	\$	1,536,123
Estimated Discounts		<u>(38,400)</u>
	\$	<u>1,497,723</u>

NOTE G – ACCOUNTING FOR UNCERTAIN TAX POSITIONS

The Association adopted ASC 740-10-25, Income Taxes - Overall-Recognition, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. The Association must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Association did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25. The Association is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2012.

NOTE I – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through May 16, 2018, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of May 16, 2018 have been incorporated into these financial statements.