EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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CERTIFIED PUBLIC ACCOUNTANTS

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

INDEX TO REPORT

DECEMBER 31, 2022

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Empire Pass Master Owner's Association, Inc., which comprise the balance sheet as of December 31, 2022, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Empire Pass Master Owner's Association, Inc. as of December 31, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Empire Pass Master Owner's Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Empire Pass Master Owner's Association, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Empire Pass Master Owner's Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Empire Pass Master Owner's Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Empire Pass Master Owners Association, Inc.'s December 31, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 17 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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.

Chattanooga, Tennessee
April 5, 2023

Henderson Hutcherson
& McCullough, PLLC

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2022

ASSETS

	2022			2021
	Operating Fund	Major Repairs and Replacements Fund	Total	Total (for Comparative Purposes Only)
ASSETS				
Cash and cash equivalents	$ 4,001,858	$ 871,388	$ 4,873,246	$ 4,759,299
Restricted cash	491,700	-	491,700	611,016
Other receivables	303,485	-	303,485	4,894
Related party receivables	3,702	-	3,702	2,162
Interfund borrowings	187,370	(187,370)	-	-
Prepaid expenses	185,178	-	185,178	66,799
Right-of-use asset	509,064	-	509,064	-
Property and equipment, net	1,407,069	-	1,407,069	2,089,245
TOTAL ASSETS	$ 7,089,426	$ 684,018	$ 7,773,444	$ 7,533,415

LIABILITIES AND FUND BALANCES

	Operating Fund	Major Repairs and Replacements Fund	Total	Total (for Comparative Purposes Only)
LIABILITIES				
Accounts payable	$ 308,319	$ -	$ 308,319	$ 55,897
Accrued expenses	6,629	-	6,629	12,943
Related party payables	246,772	-	246,772	61,842
Deposits payable	818,873	-	818,873	968,051
Finance lease obligation	514,416	-	514,416	497,910
Deferred revenue	649,897	-	649,897	304,888
Contract liabilities - assessments received in advance	-	684,018	684,018	842,049
TOTAL LIABILITIES	2,544,906	684,018	3,228,924	2,743,580
FUND BALANCES	4,544,520	-	4,544,520	4,789,835
TOTAL LIABILITIES AND FUND BALANCES	$ 7,089,426	$ 684,018	$ 7,773,444	$ 7,533,415

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2022

	2022			2021
	Operating Fund	Major Repairs and Replacements Fund	Total	Total (for Comparative Purposes Only)
REVENUES				
Member assessments	$ 1,079,534	$ 269,670	$ 1,349,204	$ 1,415,096
Reinvestment fees	1,109,020	-	1,109,020	2,083,964
Design review board fees	63,000	-	63,000	87,000
Interest income	-	5,860	5,860	1,206
Historic preservation contributions	120,000	-	120,000	40,000
Gain on sale of property and equipment	63,612	-	63,612	-
Miscellaneous income	252,527	-	252,527	65,472
Total revenues	2,687,693	275,530	2,963,223	3,692,738
EXPENSES				
Administrative	174,624	18,451	193,075	37,025
Amortization	5,474	-	5,474	-
Depreciation	208,806	-	208,806	195,107
Design review board	5,689	-	5,689	7,602
Historic preservation	304,367	-	304,367	344,396
Income tax expense	346	-	346	3,309
Insurance	89,852	-	89,852	73,335
Interest expense	46,938	-	46,938	29,882
Management fees	46,583	-	46,583	45,226
Maintenance and repairs	110,714	-	110,714	81,856
Outside transportation	932,672	-	932,672	876,243
Payroll	602,598	-	602,598	513,752
Professional fees	18,756	-	18,756	15,829
Rent expense	28,400	-	28,400	1,800
Road	116,476	-	116,476	94,511
Security	84,312	-	84,312	77,200
Utilities	18,517	-	18,517	21,086
Vehicle	137,884	-	137,884	130,523
Reserve expenses	-	257,079	257,079	85,151
Total expenses	2,933,008	275,530	3,208,538	2,633,833
EXCESS OF REVENUES OVER EXPENSES	(245,315)	-	(245,315)	1,058,905
FUND BALANCES	4,789,835	-	4,789,835	3,730,930
FUND BALANCES - end of year	$ 4,544,520	$ -	$ 4,544,520	$ 4,789,835

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

	2022			2021
	Operating Fund	Major Repairs and Replacements Fund	Total	Total (for Comparative Purposes Only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of expenses over revenues	$ (245,315)	$ -	$ (245,315)	$ 1,058,905
Adjustments to reconcile excess of revenues over expenses to cash from operating activities:				
Depreciation	208,806	-	208,806	195,107
Amortization	5,474	-	5,474	-
Gain on sale of property and equipment	(63,612)	-	(63,612)	(2,500)
Finance lease	(122,762)	-	(122,762)	-
Changes in operating assets and liabilities				
Other receivables	(98,589)	-	(98,589)	39,145
Related party receivables	(1,540)	-	(1,540)	(2,162)
Prepaid expenses	(118,379)	-	(118,379)	(7,241)
Accounts payable	252,420	-	252,420	(106,541)
Accrued expenses	(6,313)	-	(6,313)	(21,871)
Due to related parties	184,930	-	184,930	165,880
Deposits payable	(149,178)	-	(149,178)	13,901
Deferred revenue	345,009	-	345,009	(158,533)
Contract liabilities - assessments received in advance	-	(158,031)	(158,031)	(41,418)
Net cash from operating activities	190,951	(158,031)	32,920	1,132,672
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of property and equipment	277,975	-	277,975	2,500
Purchases of property and equipment	(316,020)	-	(316,020)	(390,004)
Net cash from investing activities	(38,045)	-	(38,045)	(387,504)

(Continued)

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

	2022			2021
(Continued)	Operating Fund	Major Repairs and Replacements Fund	Total	Total (for Comparative Purposes Only)
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in interfund borrowings	(145,440)	145,440	-	-
Principal payments on capital lease obligations	(244)	-	(244)	(118)
Net cash from financing activities	(145,684)	145,440	(244)	(118)
NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	7,222	(12,591)	(5,369)	745,050
Cash, cash equivalents and restricted cash - beginning of year	4,486,336	883,979	5,370,315	4,625,265
Cash, cash equivalents and restricted cash - end of year	$4,493,558	$ 871,388	$ 5,364,946	$ 5,370,315
SUMMARY OF CASH ACCOUNTS				
Cash and cash equivalents	$4,001,858	$ 871,388	$ 4,873,246	$ 4,759,299
Restricted cash	491,700	-	491,700	611,016
	$4,493,558	$ 871,388	$ 5,364,946	$ 5,370,315
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for interest			$ 46,938	$ 29,882

NOTE 1 – ORGANIZATION AND 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, 2022, 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 cluster homes), Larkspur Subdivision (27 townhomes), Ironwood Subdivision (23 townhomes), Nakoma Subdivision (17 cluster homes), Grand Lodge Subdivision (28 condominium units), Arrow Leaf Subdivision (56 condominium units), Belles at Bannerwood (17 cluster homes), Flagstaff Subdivision (37 condominium units), Silver Strike Subdivision (34 condominium units), One Empire Pass (27 condominium units), Residences at the Tower (14 condominium units) and Argent (27 condominium unites). 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 Association prepares their financial statements using the accrual method 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. The Financial Accounting Standards Board (FASB) establishes GAAP in the Accounting Standards Codification (ASC). Updates to the ASC are done through the issuance of Accounting Standards Updates (ASU).

Revenue Recognition

The Association follows ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, "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)

Revenue Recognition (Continued)

The Association has 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 architectural 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 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. Architectural review fees are recorded as revenue when earned during the review process.

Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the future major repairs and replacements fund assessments are satisfied when these funds are expended for their designated purpose.

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.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2022, 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.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Deferred Revenue

Operating fund member assessments received in advance for the subsequent year are recognized as deferred revenue on the accompanying balance sheet.

Contract Liabilities – Assessments Received in Advance

The Association recognizes revenue from member assessments for major repairs and replacements as the related performance obligations are satisfied. A contract liability (assessments received in advance) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balance of contract liabilities (assessments received in advance – future major repairs and replacements fund) as of December 31, 2022 was $684,018.

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Generally, associations are taxed as regular corporations or, if they qualify, may elect to be taxed as a homeowner's association. For the year ended December 31, 2022, the Association elected to receive exemption from federal and state income taxes as a homeowner's 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.

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. As of December 31, 2022, the Association had approximately $2,763,152 in excess of FDIC limits.

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.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31, 2022:

	Operating Fund	Major Repairs & Replacements Fund	Total
Cash	$ 2,862,320	$ 147,233	$ 3,009,553
Certificate of deposits	1,631,238	724,156	2,355,394
	$ 4,493,558	$ 871,389	$ 5,364,947

NOTE 4 – RESTRICTED CASH AND DEPOSITS PAYABLE

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 Design Review Board. The Association held deposits in the amount of $486,200 which are recorded as both deposits payable and restricted cash in the accompanying balance sheet as of December 31, 2022.

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, 2022, the Association held sign deposits in the amount of $5,500 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, 2022, the balance due to PCMC was $327,173, which is recorded as both deposits payable and restricted cash in the accompanying balance sheet.

In summary, restricted cash and deposits payable consisted of the following as of December 31, 2022:

	Restricted Cash	Deposits Payable
Compliance deposits	$ 491,700	$ 486,200
Sign deposits	-	5,500
Restricted cash payable to PCMC	-	327,173
	$ 491,700	$ 818,873

NOTE 5 – 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, 2022. 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 10).

NOTE 6 – 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 July 2020. 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 7 – PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of December 31, 2022, are summarized as follows:

Buildings and improvements	$ 464,298
Land	50,000
Land improvements	87,821
Machinery and equipment	1,529,773
Vehicles	365,668
	2,497,560
Less accumulated depreciation	(1,090,491)
	$ 1,407,069

Depreciation expense for the year ended December 31, 2022 was $208,806.

NOTE 8 – FINANCE LEASES

Effective January 1, 2022, the Company adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, Leases (Topic 842). The Association has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Association accounted for its existing capital lease as a finance lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the capital lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments (as of December 31, 2022) would have met the definition of initial direct costs in ASC Topic 842 at lease commencement. As a result of the adoption of the new lease accounting guidance, the Association recognized on January 1, 2022 a lease liability at the carrying amount of the capital lease obligation on December 31, 2022, of $514,416 and a right-of-use asset at the carrying amount of the capital lease asset of $509,064.

(Continued)

NOTE 8 – FINANCE LEASES (Continued)

The Association leases a warehouse, garage, and yard space under a finance agreement with a third party. The Association entered into the ninety-nine year agreement in 2017. The arrangement includes yearly payments of $30,000.

The weighted average lease term for all leases is 93 years and the weighted average discount rate used below for future financing lease payments is 6%.

The following is a maturity analysis of the annual undiscounted cash flows of the financing lease payments to be received as of December 31:

2023	$ 30,000
2024	30,000
2025	30,000
2026	30,000
2027	30,000
Thereafter	2,640,000
Total undiscounted cash flows	2,790,000
Less present value discount	(2,275,584)
Total finance lease liability	$ 514,416

The leased warehouse, garage and yard space has amortization expense of $5,474 and interest expense of $60,006 as of December 31, 2022.

NOTE 9 – 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 10 – 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, 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, 2022, $95,734 was included in accrued expenses for employee wages payable to SDBP's subsidiaries on behalf of the Association, while $4,199 due from such subsidiaries was included in other receivables. Total payroll cost reimbursements paid to SDBP's subsidiaries during the year ended December 31, 2022 were $474,205, while expense reimbursements, maintenance service and design review board fees received totaled $23,436.

(Continued)

NOTE 10 – RELATED-PARTY TRANSACTIONS (Continued)

The Association also shares certain services and supply costs with Tuhaye Home Owners Association ("Tuhaye"). As of December 31, 2022, net amounts payable from the Association to Tuhaye totaled $133,293.

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, 2022, management fees expense was $46,583.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to December 31, 2022 through April 5, 2023 (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items that required recognition or additional disclosure in these financial statements.

SUPPLEMENTARY INFORMATION

EMPIRE PASS MASTER OWNERS ASSOCIATION, INC.

SCHEDULE OF FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

DECEMBER 31, 2022

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 July 2020. 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	3	$ 295,050
Asphalt – Empire Club Drive - Major Rehab	18	107,000
Bridge & Pole Lights – Replace	5	172,500
Bridges Surfaces – Refurbish	18	150,000
Asphalt – Red Cloud – Major Rehab	2	71,000
Asphalt – Red Cloud Trail 2016 – Major Rehab	11	87,500
Asphalt – Silver Strike Trail – Major Rehab	11	54,775
Asphalt – Hawkeye Place - Major Rehab	1	21,000
Asphalt – Slurry Seal	1	46,000
Wood surfaces – Stain	1	36,000
Curbing – Partial Replace	0	20,000
Asphalt – Northside Court – Major Rehab	6	18,500
Asphalt – 2018 – Slurry Seal	0	2,600
Asphalt – Banner Court – Major Rehab	4	16,000
Asphalt – Crack Seal	0	13,000
Metal Bridge – Maintenance	0	11,000
Stone Veneer – Repairs	0	21,000
Monument Signs – Refurbish	4	9,750
Fire Hydrants – Repair/Replace	2	5,500
Retaining Walls – Repair	0	5,500
Water Lines – Repair	0	5,500
Sign Posts – Install/Replace	0	2,100
Guard Rails – Repair	0	2,100
Camera System – Replace	3	1,700
Transit Center Roof - Replace	8	4,000
Transit Center - Repair/Repaint	4	3,500
Asphalt - Village Way - Major Rehab	15	36,000
Asphalt - 2021 - Slurry Seal	0	36,000
Asphalt - Ruby Hollow - Major Rehab	16	26,775
Asphalt - Ruby Hollow - Replace	0	40,000
Sign Posts – Repaint	0	1,050
		$ 1,322,400