

AMERICAN TOWERS OWNERS ASSOCIATION

AUDIT OF FINANCIAL STATEMENTS

For the year ended April 30, 2016

together with

REPORT OF INDEPENDENT AUDITORS

AMERICAN TOWERS OWNERS ASSOCIATION

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees and members
American Towers Owners Association



We have audited the accompanying financial statements of American Towers, which comprise the balance sheet as of April 30, 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.

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. Information for the year ended April 30, 2015 is presented for comparative purposes only and was extracted from the financial statements presented by fund for that year, on which we expressed an unmodified opinion in our report dated June 7, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Towers as of April 30, 2016, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

As explained in Note C, information about the estimates of future costs of 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 has not been included. 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.

A handwritten signature in black ink that reads "David E. & Barbara LLC". The signature is written in a cursive style with a large initial "D" and "B".

Salt Lake City, Utah
November 22, 2016

American Towers Owners Association

Balance Sheet

April 30, 2016

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ASSETS	2016				2015
	Operating Fund	Residential Fund	Common Fund	Total	Total (for Comparative Purposes Only)
Cash and cash equivalents	\$ 56,412	\$ 383,153	\$ 305,434	\$ 744,999	\$ 768,936
Assessments receivable	40,030	-	-	40,030	26,927
Prepaid expenses and deposits	19,583	-	-	19,583	-
Assessment receivable: rooftop refurbishment	-	14,144	166,546	180,690	270,761
Assessment receivable: remodel and redesign	-	488,602	-	488,602	588,059
Inventory	3,320	-	-	3,320	4,440
Interfund receivable (payable)	(15,372)	16,185	(813)	-	-
Total Assets	\$ 103,973	\$ 902,084	\$ 471,167	\$ 1,477,224	\$ 1,659,123

LIABILITIES AND FUND BALANCES (DEFICITS)

Liabilities

Accounts payable	\$ 26,437	\$ 22,128	\$ -	\$ 48,565	\$ 32,055
Accrued liabilities	85,057	57,000	-	142,057	128,214
Income taxes payable	100	-	-	100	100
Deferred revenue - unearned assessments	71,904	8,243	6,920	87,067	67,154
Notes payable	-	756,614	448,281	1,204,895	401,940
Total Liabilities	183,498	843,985	455,201	1,482,684	629,463
Fund balances (deficits)	(79,525)	58,099	15,966	(5,460)	1,029,660
Total Liabilities and Fund Balances	\$ 103,973	\$ 902,084	\$ 471,167	\$ 1,477,224	\$ 1,659,123

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

American Towers Owners Association
Statement of Revenue, Expenses and Changes in Fund Balances
Year Ended April 30, 2016

	2016				2015
	Operating Fund	Residential Fund	Common Fund	Total	Total (for Comparative Purposes Only)
Revenue					
Member assessments	\$ 1,719,481	\$ 196,020	\$ 164,556	\$ 2,080,057	\$ 2,083,936
Special Assessments	-	-	-	-	1,120,719
Interest	7,520	28	-	7,548	167
Other	35,113	-	-	35,113	32,588
Total Revenue	1,762,114	196,048	164,556	2,122,718	3,237,410
Expenses					
Payroll	560,618	-	-	560,618	557,955
Utilities	495,384	-	-	495,384	482,821
Taxes, insurance, and other	205,040	-	-	205,040	192,386
Contracts	297,653	-	-	297,653	285,365
Major repairs and replacement expenditures	-	919,218	147,359	1,066,577	1,197,993
Maintenance and repairs	144,365	57,000	244,260	445,625	326,872
Interest expense	752	16,574	20,186	37,512	25,641
Legal and professional	20,491	-	-	20,491	13,524
Supplies	20,917	-	-	20,917	19,454
Administrative	7,921	-	-	7,921	5,741
Income taxes	100	-	-	100	100
Total Expenses	1,753,241	992,792	411,805	3,157,838	3,107,852
(Deficiency) excess of revenue over expenses	8,873	(796,744)	(247,249)	(1,035,120)	129,558
Beginning fund balances (deficit)	(88,398)	854,843	263,215	1,029,660	900,102
Ending fund balances (deficits)	\$ (79,525)	\$ 58,099	\$ 15,966	\$ (5,460)	\$ 1,029,660

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

American Towers Owners Association

Statement of Cash Flows

Year Ended April 30, 2016

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	2016				2015
	Operating Fund	Residential Fund	Common Fund	Total	Total (for Comparative Purposes Only)
OPERATING ACTIVITIES					
(Deficiency) excess of revenue over expenses	\$ 8,873	\$ (796,744)	\$ (247,249)	\$ (1,035,120)	\$ 129,558
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash and cash equivalents provided by (used in) operating activities:					
Major repairs financed with debt	-	772,516	154,593	927,109	-
(Increase) decrease in assets:					
Assessments receivable	(13,103)	-	76,627	63,524	96,093
Rooftop assessment receivable	-	13,444	-	13,444	-
Remodel and redesign assessment receivable	-	99,457	-	99,457	(588,059)
Interfund receivable/payable	(13,496)	2,131	11,365	-	-
Inventory	1,120	-	-	1,120	-
Prepaid expenses	(19,583)	-	-	(19,583)	-
(Decrease) increase in liabilities:					
Accounts payable	(5,618)	22,128	-	16,510	4,645
Accrued liabilities	13,901	(58)	-	13,843	(24,038)
Income taxes payable	-	-	-	-	100
Deferred revenue	17,711	1,042	1,160	19,913	(22,853)
Net cash and cash equivalents provided by (used in) operating activities	(10,195)	113,916	(3,504)	100,217	(404,554)
FINANCING ACTIVITIES					
Principal payments on note payable	-	(15,902)	(108,252)	(124,154)	(74,565)
Net cash and cash equivalents used in financing activities	-	(15,902)	(108,252)	(124,154)	(74,565)
Net increase (decrease) in cash and cash equivalents	(10,195)	98,014	(111,756)	(23,937)	(479,119)
Cash and cash equivalents at beginning of year	66,607	285,139	417,190	768,936	1,248,055
Cash and cash equivalents at end of year	\$ 56,412	\$ 383,153	\$ 305,434	\$ 744,999	\$ 768,936

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Income taxes	\$ 100	\$ 100
Interest	\$ 37,512	\$ 25,641

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

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 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

The American Towers Owners Association (the Association) was organized as a not-for-profit corporation for purposes of maintaining and preserving common property of the American Towers condominium. The American Towers condominium consists of 357 residential units and three commercial units located in downtown Salt Lake City, Utah. The Association began operations in July 1982. Its primary source of revenue is assessments to each of the unit's owners.

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) *Residential Fund* – used to accumulate financial resources designated for future major repairs and replacements of residential property.
- c) *Common Fund* – used to accumulate financial resources designated for future major repairs and replacements of common property.

3. Basic Assessments and Assessments Receivable

Each year a basic assessment is determined based on advance estimates of the Association's expenses for maintenance and operation of common areas. Such estimated expenses include management fees, taxes, insurance premiums, wages, repairs and maintenance, utilities, legal and accounting fees, capital replacements and improvements (Note C), deficits remaining from a previous period, creation of a contingency reserve, and any other expenses incurred for the benefit of the owners. The Association's policy is to retain legal counsel and place liens on the properties of condo owners whose assessments are thirty days or more delinquent. At April 30, 2016, the Association had recorded an allowance for doubtful accounts of \$10,000.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Special Assessments

In addition to the basic assessments, the Association may levy special assessments at any time upon the affirmative vote of at least 60 percent of total votes of Association members. These assessments may be used for construction, reconstruction, unexpected repairs, or for any other expense incurred relating to the Association.

5. 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 unit owners in common and not by the Association. The Association's policy for recognizing common property as assets in its balance sheet is to recognize the cost of common personal property, which it owns. Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Capitalized common property purchased with Residential or Common Fund monies is shown as a transfer from the Residential or Common Funds 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.

6. Revenue Recognition

Assessments are due from unit owners on the first day of each month. Assessments received in advance of the due date are shown in the accompanying financial statements as deferred revenue and are recognized monthly as revenue is earned.

7. Fair Value of Financial Instruments

The carrying value of the Association's cash and cash equivalents, assessments receivable, short-term payables, and note payable approximate their fair values.

8. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all short-term instruments with an original maturity of three months or less when purchased to be cash equivalents.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Inventory

Inventory is valued at the lower of cost or market using the first-in first-out method.

10. Income Taxes

The Association files income tax returns as a taxable corporation under section 277 of the Internal Revenue Code. Amounts funded as special or capital assessments for future improvements are not subject to income taxes. Activities of the Association subject to income taxes consist principally of interest and other income.

The Association accounts for deferred income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities.

11. 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. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

12. 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 April 30, 2015, from which the summarized information was derived.

13. Estimates

The preparation of the 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE B – CASH ACCOUNTS

The Association maintains its cash balances in two financial institutions. At April 30, 2016, the Association had \$438,587 in excess of federally insured limits for deposits.

NOTE C – 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 and investment accounts and generally are not available for expenditures for normal operations.

The Association's board authorized Association Reserves, Inc. to complete a study in August 2014 to estimate the remaining useful lives and replacement costs of the components of common property. Subsequent to the issuance of the reserve study, the Association incurred major repair and replacement expenditures and levied special assessments that were recorded in the financial statements, but were not contemplated by the reserve study. For this reason, the reserve study is outdated and information about the estimates of future major repairs and replacements is not presented to supplement the basic financial statements. However, the Association has budgeted \$164,556 and \$196,020 for the Common and Residential Funds, respectively, for the year ended April 30, 2017. Actual expenditures and interest income may vary from the current estimates and the variations may be material. Amounts accumulated in the Residential and Common Funds 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. Subject to membership approval, the Association may also pass special assessments.

The Association has recorded a net payable of \$15,372 in the Operating Fund and \$813 in the Common Fund representing funds to be transferred to the Residential Fund used to cover major repairs and replacements. The Association intends to transfer these amounts and, therefore, has reflected these amounts as an interfund receivable and payable.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE D – ACCRUED LIABILITIES

Accrued liabilities as of April 30, 2016 consist of the following:

Accrued vacation payable	\$	57,215
Accrued payroll		6,693
Accrued parking		57,000
Insurance proceeds payable		20,340
Other		809
	\$	<u>142,057</u>

NOTE E – COMMITMENTS

The Association is party to a reciprocal easement and maintenance agreement relating to the real property on Block 58 in Salt Lake City, Utah, on which the Association's condominium unit is located. This agreement with American Plaza, requires the Association to pay 5.3 percent of the American Plaza operating expenses relating to the common areas of the parking garage, exclusive of capital improvements. Further, the agreement requires the Association to pay 31% of the American Plaza parking annual capital improvement or repairs. Under this agreement, the Association incurred expenses of \$57,000 during the fiscal year ended April 30, 2016, which are recorded in the maintenance and repairs expense in the residential fund and \$34,650 during the fiscal year ended April 30, 2016, which are recorded in contracts expense in the operating fund.

In July 1994, the Association renewed an extended coverage maintenance agreement for elevators in the condominium project. The term of the renewed contract is over 20 years at an original base monthly rate of \$4,995, subject to an inflation adjustment each year. During the year ended April 30, 2016, the average monthly rate was \$10,565 totaling \$126,227. This amount is recorded in contracts expense in the operating fund.

NOTE F – SPECIAL ASSESSMENTS RECEIVABLE

Members were given the option to make a lump sum payment or to make monthly payments over a 7 year period at 6% interest to help finance the recent remodel and redecorating project that was completed in 2016. As of April 30, 2016, the assessment receivable for the remodel and redesign project was \$488,602. Also, members were given similar payment options for the rooftop refurbishment project that was completed in 2014. As of April 30, 2016, the assessment receivable for the rooftop refurbishment project was \$180,690. An allowance for doubtful accounts has not been recorded against these receivables since management believes these accounts are fully collectible. In the event that a member's account becomes delinquent, the Association has the policy to retain legal counsel and place liens on the owner's property.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE G – NOTES PAYABLE

Notes payable consist of the following at April 30, 2016:

5.718% note payable to bank, \$7,680 monthly payments, due November 1, 2019, secured by cash, receivables and assessments.	\$ 296,868
5.711% note payable to bank, \$11,608 monthly payments, due November 15, 2022, secured by cash, receivables and assessments.	756,614
5.711% note payable to bank, \$2,322 monthly payments, due November 15, 2022, secured by cash, receivables and assessments.	151,413
	<u>\$ 1,204,895</u>

Future maturities of the note payable are as follows:

<u>Year Ended April 30,</u>	
2017	\$ 193,913
2018	206,159
2019	218,424
2020	192,583
2021	148,231
Thereafter	245,585
	<u>\$ 1,204,895</u>

The loan agreements require the Association to maintain a ratio of total non-restricted cash balances at the end of each fiscal year to current portion of long-term indebtedness plus interest for the coming year of not less than 1.50 to 1.0. For the year ended April 30, 2016, the Association was in compliance with this covenant.

American Towers Owners Association

Notes to Financial Statements

Year Ended April 30, 2016

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NOTE H – ACCOUNTING FOR UNCERTAIN TAX PROVISIONS

The Association adopted ASC 740-10-25, Income Taxes – Overall Recognition, on January 1, 2009, 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 is no longer subject to U.S. federal, state, and local, or non-U.S. income tax examinations by tax authorities for years before 2013.

NOTE I – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification 855, Subsequent Events, the Company has evaluated subsequent events through November 22, 2016, which is the date these financial statements were issued. All other subsequent events requiring recognition as of November 22, 2016, have been incorporated into these financial statements.

SUPPLEMENTARY INFORMATION

American Towers Owners Association

Supplementary Information on Future Major Repairs and Replacements (Unaudited) Year Ended April 30, 2015

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The Association's board authorized Association Reserves, Inc. to complete a reserve study for the year ended April 30, 2015, to estimate the remaining useful lives and the replacement costs of the components of Residential Fund property. The study is a non-site, updated version of a site visit conducted in March 2010, and was issued in August of 2014. The estimates were 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 1.00 percent on the amounts funded for future major repairs and replacements.

Components	Estimated remaining useful lives (years)	Estimated Replacement Costs	2016 funding requirement	Component of fund balance at April 30, 2015
Exterior	0-8	\$ 56,000	\$ 16,965	\$ 3,459
Common areas	0-20	1,967,300	249,799	113,901
Elevators	10-12	48,000	-	35,503
Parking	0-8	192,500	-	43,147
Total Assets		<u>\$ 2,263,800</u>	<u>\$ 266,764</u>	<u>\$ 196,010</u>

The above summary information of future repairs and replacements for the residential fund was not audited and was completed on August 14, 2014, prior to the audit completion date of May 30, 2016 and has not been subsequently updated. As a result the component of fund balance at April 30, 2015 per the reserve study was \$568,699 and the audited fund balance totaled \$196,020. As of April 30, 2015 the residential fund was 21.7% funded, as compared to the reserve study recommended fund balance of \$2,625,651.

Unaudited - See report of independent auditors

American Towers Owners Association

Supplementary Information on Future Major Repairs and Replacements (Unaudited) Year Ended April 30, 2015

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The Association's board authorized Association Reserves, Inc. to complete a reserve study for the year ended April 30, 2015, to estimate the remaining useful lives and the replacement costs of the components of Common Fund property. The study is a non-site, updated version of a site visit conducted in March 2010, and was issued in August of 2014. The estimates were 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 2.00 percent on the amounts funded for future major repairs and replacements.

Components	Estimated remaining useful lives (years)	Estimated Replacement Costs	2016 funding requirement	Component of fund balance at April 30, 2015
Exterior	0-24	\$ 1,644,000	\$ -	\$ 64,414
HVAC & Plumbing	0-20	1,239,000	278,525	57,108
Mechanical	0-6	432,500	11,980	43,035
Total Assets		<u>\$ 3,315,500</u>	<u>\$ 290,505</u>	<u>\$ 164,557</u>

The above summary information of future repairs and replacements for the common fund was not audited and was completed on August 14, 2014, prior to the audit completion date of May 30, 2016, and has not been subsequently updated. As a result the component of fund balance at April 30, 2015 per the reserve study was \$341,905, and the audited fund balance totaled \$164,556. As of April 30, 2015 the common fund was 22.9% funded, as compared to the reserve study recommended fund balance of \$1,491,117.

Unaudited - See report of independent auditors