

FAIRWOOD GREENS  
HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2007

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2007

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Fairwood Greens Homeowners Association  
Renton, Washington

We have audited the accompanying balance sheet of Fairwood Greens Homeowners Association as of August 31, 2007 and the related statement of revenues and expenses, changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of the Association's Board of Directors. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Fairwood Greens Homeowners Association as of August 31, 2007, 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.

The Association has not estimated the remaining lives and replacement cost of common property and, therefore, has not presented supplementary information on future repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Luby & Thomson, PLLC  
Certified Public Accountants

October 25, 2007

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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BALANCE SHEET  
AUGUST 31, 2007

**ASSETS**

Cash & Cash Equivalents	\$	292,263
Assessments Receivable		39,335
Prepaid Insurance		3,707
Equipment		70,182
Accumulated Depreciation		<u>(29,399)</u>
 TOTAL ASSETS	 \$	 <u>376,088</u>

**LIABILITIES AND HOMEOWNERS' EQUITY**

LIABILITIES:

Accounts Payable	\$	29,171
Federal Income Taxes Payable		1,468
Unearned Income		<u>119,920</u>
		150,559

HOMEOWNERS' EQUITY		<u>225,529</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$	<u>376,088</u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2007

REVENUES:	
Member Assessments	\$ 359,560
Interest Income	6,412
Penalties and Fees	14,700
TOTAL REVENUES	<u>380,672</u>
EXPENSES:	
ADMINISTRATIVE EXPENSES	
Security	219,793
Grounds/Maintenance	52,244
Accounting/Bookkeeping	20,400
Recording Secretary	9,600
Greeter	1,462
Utilities	9,893
Miscellaneous	1,638
	<u>315,030</u>
PROFESSIONAL FEES	
Legal Fees - Counsel/Advice	17,317
Insurance	7,572
Audit and Tax Services	3,245
	<u>28,134</u>
OFFICE EXPENSES	
Publications	8,098
Supplies	7,919
Data Processing & Systems	512
Depreciation	8,119
Property Taxes	617
Federal Income Taxes	1,468
Miscellaneous	2,193
	<u>28,926</u>
TOTAL EXPENSES	<u>372,090</u>
TOTAL EXCESS OF REVENUES OVER EXPENSES	<u>\$ 8,582</u>

See accountant's report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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STATEMENT OF HOMEOWNERS' EQUITY  
FOR THE YEAR ENDED AUGUST 31, 2007

BEGINNING HOMEOWNERS' EQUITY	\$ 216,947
EXCESS OF REVENUES OVER EXPENSES	<u>8,582</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 225,529</u></u>

See accountant's report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of Revenues Over Expenses	\$ 8,582
Depreciation Expense	8,119
(Increase) Decrease in Assets –	
Assessments Receivable	(3,071)
Prepaid Insurance	158
Increase (Decrease) in Liabilities –	
Accounts Payable	8,458
Prepaid Assessments	80
Federal Income Taxes Payable	886
INCREASE (DECREASE) IN CASH FROM OPERATING ACTIVITIES	<u>23,212</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of equipment	(11,969)
CASH, beginning of year	<u>281,020</u>
CASH, end of year	<u><u>\$ 292,263</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for federal income taxes	\$ 582

# FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2007

### NOTE 1. **PURPOSE AND ORGANIZATION:**

#### Purpose

The Fairwood Greens Homeowners Association (the Association) is organized as a non-profit, non-stock corporation in the state of Washington for the purpose of operating, maintaining, and managing the common areas of a residential real estate development for the benefit of its members.

#### Organization

The Association was formed primarily to govern association property. The Association is responsible for the operation, preservation and maintenance of the common areas of a residential development. The Association consists of 1,499 single-family lots.

Common areas of the Association consist primarily of two community parks and landscaped greenbelts. Adjacent to the Association is a private golf course. Membership in the Association does not provide rights to the golf course.

### NOTE 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### Cash and Cash Equivalents

The Association considers all interest bearing deposits and highly liquid investments purchased with maturities of three months or less to be cash equivalents.

#### Member Assessments

Association members are subject to semi-annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and maintenance of the common areas. Any excess assessments at year-end are retained by the Association for use in future years.

#### Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

The Association capitalizes equipment at cost and depreciates it using the straight-line method over its estimated useful life.



FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2007

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**Use of Estimates in Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

**NOTE 3. CASH**

At various times during the fiscal year and as of August 31, 2007, the Association's cash in bank balances exceeded the federally insured limits.

**NOTE 4. FEDERAL INCOME TAX PROVISION**

The Association may be taxed either as a homeowners association (defined by Internal Revenue Code Section 528) or as a regular corporation (Internal Revenue Code Section 277). As a homeowners association, non-exempt function income, such as interest earnings, is taxed at a flat rate of thirty percent. Exempt function income, which consists primarily of member assessments, is not taxable. Under the regular corporation method, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal rates

For the year ended August 31, 2007 the Association will be filing its income tax return as a homeowner's association. Income tax of \$1,468 is due.

**NOTE 5. ASSESSMENTS RECEIVABLE**

It is the opinion of the Board of Directors that the Association will collect all past due assessments and an allowance for bad debts is not necessary. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears. Penalties and fines are also assessed on outstanding dues. As of August 31, 2007, receivables in the amount of \$29,314 have a lien on the property which is 75% of the total receivable balance.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2007

**NOTE 6. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association has not developed a plan to fund those needs, and when replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.