

FAIRWOOD GREENS  
HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2008

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008

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# LUBY & THOMSON, PLLC

C e r t i f i e d P u b l i c A c c o u n t a n t s

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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, 2008 and the related statement of revenues and expenses, homeowners' equity 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, 2008, 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 28, 2008

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

BALANCE SHEET  
AUGUST 31, 2008

**ASSETS**

Cash & Cash Equivalents	\$	345,909
Assessments Receivable		46,380
Prepaid Insurance		3,390
Equipment		73,340
Accumulated Depreciation		<u>(42,028)</u>
 TOTAL ASSETS	 \$	 <u>426,991</u>

**LIABILITIES AND HOMEOWNERS' EQUITY**

LIABILITIES:

Accounts Payable	\$	17,865
Federal Income Taxes Payable		1,682
Unearned Income		<u>149,900</u>
		169,447

HOMEOWNERS' EQUITY		<u>257,544</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$	<u>426,991</u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2008

REVENUES:

Member Assessments	\$ 419,720
Interest Income	7,329
Penalties and Fees	8,554
TOTAL REVENUES	<u>435,603</u>

EXPENSES:

ADMINISTRATIVE EXPENSES

Security	241,944
Grounds/Maintenance	55,644
Accounting/Bookkeeping	21,600
Recording Secretary	14,400
Greeter	1,908
Utilities	7,558
Special Events	3,514
FW Flyer Publication	9,060
Miscellaneous	319
	<u>355,947</u>

PROFESSIONAL FEES

Legal Fees - Counsel/Advice	9,794
Insurance	7,149
Audit and Tax Services	2,885
	<u>19,828</u>

OFFICE EXPENSES

Homeowner Mailings	6,619
Postage and Supplies	3,747
Data Processing & Systems	611
Depreciation	12,629
Property Taxes	452
Federal Income Taxes	1,682
Miscellaneous	2,073
	<u>27,813</u>

TOTAL EXPENSES	<u>403,588</u>
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TOTAL EXCESS OF REVENUES OVER EXPENSES	<u><u>\$ 32,015</u></u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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STATEMENT OF HOMEOWNERS' EQUITY  
FOR THE YEAR ENDED AUGUST 31, 2008

BEGINNING HOMEOWNERS' EQUITY	\$ 225,529
EXCESS OF REVENUES OVER EXPENSES	<u>32,015</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 257,544</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, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of Revenues Over Expenses	\$ 32,015
Depreciation Expense	12,629
(Increase) Decrease in Assets --	
Assessments Receivable	(7,045)
Prepaid Insurance	317
Increase (Decrease) in Liabilities --	
Accounts Payable	(11,306)
Prepaid Assessments	29,980
Federal Income Taxes Payable	214
INCREASE (DECREASE) IN CASH FROM OPERATING ACTIVITIES	<u>56,804</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of equipment	(3,158)
CASH, beginning of year	<u>292,263</u>
CASH, end of year	<u><u>\$ 345,909</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for federal income taxes	\$ 1,468

See accountants' report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008

**NOTE 1. NATURE OF 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:**

Use of Estimates

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.

Cash and Cash Equivalents

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

Assessments Receivable

Assessments receivable consist of all money due from homeowners, including fines and penalties. As of August 31, 2008, approximately \$31,000 of the Assessments Receivable is penalties and fines.

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. Current capitalized equipment consists of park equipment, shed and irrigation system.



FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008

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

Unearned Income

The Association recognizes the liability to its homeowners for assessment revenue billed in advance. At each year end, four months of member assessments are prebilled. As of August 31, 2008, unearned income of \$149,900 is recognized.

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.

Federal Income Taxes

The Association has the option of filing its Federal Income Tax Return on Form 1120 under the provisions contained in Subchapter C of the Internal Revenue Code (IRC), or on Form 1120-H as a homeowners' association defined under IRC Section 528. Under IRC Section 528, exempt function net income such as membership fees and dues are exempt from income tax. All other sources of income (activities income) are taxed at a flat rate of 30%. For the current year, the Association intends to file Form 1120-H following the provisions contained in IRC Section 528. Income tax of \$1,682 is due.

**NOTE 3. UNINSURED CASH BALANCES**

At various times during the fiscal year and as of August 31, 2008, the Association's cash in bank balances exceeded the federally insured limits.

**NOTE 4. ALLOWANCE FOR UNCOLLECTABLE ASSESSMENTS RECEIVABLE**

It is the opinion of the Board of Directors that the Association will collect all past due assessments, therefore no allowance for uncollectables has been established. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears. As of August 31, 2008, receivables in the amount of \$37,741 have a lien on the property which is 81% of the total receivable balance.

**NOTE 5. 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.