



# 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

November 9, 2009

419 Occidental Ave. S., Suite 600 • Seattle, WA 98104  
(206) 628-4991 Fax (206) 682-3977

Board of Directors  
Fairwood Greens Homeowners Association  
P.O. Box 58053  
Renton, WA 98058

We have audited the financial statements of Fairwood Greens Homeowners Association for the year ended August 31, 2009, and have issued our report thereon dated November 9, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 16, 2009. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Fairwood Greens Homeowners Association are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year ended August 31, 2009. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

Management's estimate of the allowance for doubtful pledges receivable is based on a review of the pledge balances and the payment history. We evaluated the key factors and assumptions used to develop the allowance and determined that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation expense is based on estimated useful lives of the equipment. We evaluated the key factors and assumptions used to develop the depreciation expense and determined that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 9, 2009.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

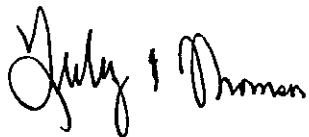
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and the management of Fairwood Greens Homeowners Association and is not intended to be and should not be used by anyone other than these specified parties.

#### *Other Audit Findings or Issues*

No Management Recommendation letter was issued as there was no material weaknesses noted.

Very truly yours,

A handwritten signature in black ink, appearing to read "Judy + Thomas". The signature is written in a cursive, flowing style.

FAIRWOOD GREENS  
HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2009

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2009

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**LUBY & THOMSON, PLLC**  
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**INDEPENDENT AUDITORS' REPORT**

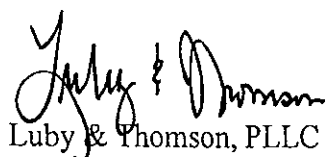
To the Board of Directors  
Fairwood Greens Homeowners Association  
Renton, Washington

We have audited the accompanying balance sheet of Fairwood Greens Homeowners Association as of August 31, 2009 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, 2009, 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

November 6, 2009

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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BALANCE SHEET  
AUGUST 31, 2009

ASSETS

Cash & Cash Equivalents	\$	375,668
Assessments Receivable		73,124
Prepaid Insurance		3,323
Equipment		73,340
Accumulated Depreciation		<u>(54,418)</u>
 TOTAL ASSETS	 \$	 <u>471,037</u>

LIABILITIES AND HOMEOWNERS' EQUITY

LIABILITIES:

Accounts Payable	\$	21,677
Federal Income Taxes Payable		830
Unearned Income		<u>149,900</u>
		172,407

HOMEOWNERS' EQUITY		<u>298,630</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$	<u>471,037</u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2009

REVENUES:

Member Assessments	\$ 449,700
Interest Income	4,642
Penalties and Fees	22,226
TOTAL REVENUES	<u>476,568</u>

EXPENSES:

ADMINISTRATIVE EXPENSES

Security	256,904
Grounds/Maintenance	68,158
Accounting/Bookkeeping	22,800
Recording Secretary	16,200
Greeter	1,650
Utilities	10,006
Special Events	4,709
FW Flyer Publication	7,082
Miscellaneous	901
	<u>388,410</u>

PROFESSIONAL FEES

Legal Fees - Counsel/Advice	10,791
Insurance	6,713
Audit and Tax Services	3,075
	<u>20,579</u>

OFFICE EXPENSES

Homeowner Mailings	6,285
Postage and Supplies	4,196
Computer Software and Hardware	1,068
Depreciation	12,390
Property Taxes	434
Federal Income Taxes	830
Miscellaneous	1,290
	<u>26,493</u>

TOTAL EXPENSES

435,482

TOTAL EXCESS OF REVENUES OVER EXPENSES

\$ 41,086

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, 2009

BEGINNING HOMEOWNERS' EQUITY	\$ 257,544
EXCESS OF REVENUES OVER EXPENSES	<u>41,086</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 298,630</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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:	
Excess of Revenues Over Expenses	\$ 41,086
Depreciation Expense	12,390
(Increase) Decrease in Assets –	
Assessments Receivable	(26,744)
Prepaid Insurance	67
Increase (Decrease) in Liabilities –	
Accounts Payable	3,812
Federal Income Taxes Payable	(852)
INCREASE (DECREASE) IN CASH FROM OPERATING ACTIVITIES	<u>29,759</u>
CASH, beginning of year	<u>345,909</u>
CASH, end of year	<u><u>\$ 375,668</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for federal income taxes	\$ 1,682

See accountants' report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2009

**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, 2009, approximately \$40,000 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, 2009

**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, 2009, 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 \$830 is due.

**NOTE 3. 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, 2009, receivables in the amount of \$58,773 have a lien on the property which is 80% of the total receivable balance. During the year ended August 31, 2009, \$2,923 was written off as uncollectable.

**NOTE 4. CONCENTRATIONS**

Accounts Receivable of \$73,124 at August 31, 2009 is comprised of balances due from 125 homeowners. One homeowner is responsible for 34.5% of this amount and 5 homeowners comprise 67.3% of this amount.

**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.