

FAIRWOOD GREENS  
HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2012

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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, 2012 and the related statements 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, 2012, 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  
Seattle, WA  
October 22, 2012

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

BALANCE SHEET  
AUGUST 31, 2012

ASSETS

Cash and cash equivalents	\$ 370,379
Assessments receivable (net of allowance \$35,000)	133,311
Prepaid insurance	3,492
Equipment	73,339
Accumulated depreciation	<u>(73,339)</u>
TOTAL ASSETS	<u>\$ 507,182</u>

LIABILITIES AND HOMEOWNERS' EQUITY

LIABILITIES:

Accounts payable	\$ 24,296
Unearned income	<u>149,900</u>
	174,196

HOMEOWNERS' EQUITY	<u>332,986</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	<u>\$ 507,182</u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2012

REVENUES:	
Member assessments	\$ 449,700
Penalties and fees	44,114
Interest income	480
TOTAL REVENUES	494,294
EXPENSES:	
ADMINISTRATIVE EXPENSES	
Security	268,163
Grounds/maintenance	63,290
Accounting/bookkeeping	25,200
Recording secretary	16,800
Utilities	13,923
FW flyer publication	9,582
Special events	18,123
Greeter	2,225
Bad debt expense	35,000
Miscellaneous	217
	452,523
PROFESSIONAL FEES	
Legal fees - counsel/advice	6,461
Insurance	6,884
Audit and tax services	3,175
	16,520
OFFICE EXPENSES	
Depreciation	3,514
Postage and supplies	6,992
Homeowner mailings	5,389
Miscellaneous	1,390
Property taxes	944
Computer software and hardware	1,002
	19,231
TOTAL EXPENSES	488,274
EXCESS OF REVENUES OVER EXPENSES	\$ 6,020

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, 2012

BEGINNING HOMEOWNERS' EQUITY	\$ 326,966
EXCESS OF REVENUES OVER EXPENSES	<u>6,020</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 332,986</u></u>

See accountant's report and notes to financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED AUGUST 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of revenues over expenses	\$ 6,020
Depreciation expense	3,514
(Increase) decrease in assets –	
Assessments receivable	(19,142)
Prepaid insurance	(100)
Increase (decrease) in liabilities –	
Accounts payable	(890)
	<hr/>
INCREASE IN CASH FROM OPERATING ACTIVITIES	(10,598)
CASH, beginning of year	<hr/> 380,977
CASH, end of year	<hr/> <u>\$ 370,379</u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for federal income taxes	\$ -
Cash paid for interest expense	\$ -

# FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2011

### 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 located in unincorporated King County, Washington.

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.



FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2011

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

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.

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, 2012, 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 filed Form 1120-H following the provisions contained in IRC Section 528. There is no income tax due.

The Association has determined there are no uncertain tax positions for the year ended August 31, 2012, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes.

The Company's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2011

**NOTE 3. ALLOWANCE FOR UNCOLLECTABLE ASSESSMENTS RECEIVABLE**  
It is the opinion of the Board of Directors that the Association may not collect all past due assessments, and hence an allowance for uncollectible has been established at \$35,000 which approximately 20% of the total receivable balance. 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, 2012, receivable of approximately \$162,417 have a lien on the property and is 96% of the total receivable balance. The allowance for uncollectible is approximately 28% of the balance with liens. During the year ended August 31, 2012, \$7,223 was written off as uncollectible.

As of August 31, 2012, \$136,316 was over 90 days due.

**NOTE 4. CONCENTRATIONS**  
Cash balances at August 31, 2012 did not exceed federally insured limits.

The accounts receivable balance of \$168,311 at August 31, 2012 consists of three homeowners who are responsible for 63% of this 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.

**NOTE 6. SUBSEQUENT EVENTS**  
The Association will be adding a new house with construction ongoing on a current lot. This will bring the total number of homes to 1500.

The Association has evaluated subsequent events through the date these financial statements were available to be issued on October 22, 2012.