

FAIRWOOD GREENS  
HOMEOWNERS ASSOCIATION

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FINANCIAL STATEMENTS  
AUGUST 31, 2013

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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 financial statements of Fairwood Greens Homeowners Association, which comprise the statement of financial position as of August 31, 2013, and the related statements of revenues and 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. 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 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 Fairwood Greens Homeowners Association as of August 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance 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 22, 2013

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

BALANCE SHEET  
AUGUST 31, 2013

**ASSETS**

Cash and cash equivalents	\$ 341,411
Assessments receivable (net of allowance \$31,930)	176,336
Prepaid insurance	3,614
Equipment	116,293
Accumulated depreciation	<u>(74,362)</u>
 TOTAL ASSETS	 \$ <u>563,292</u>

**LIABILITIES AND HOMEOWNERS' EQUITY**

LIABILITIES:

Accounts payable	\$ 23,765
Unearned income	149,900
	<u>173,665</u>

HOMEOWNERS' EQUITY	<u>389,627</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	\$ <u>563,292</u>
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FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2013

REVENUES:

Member assessments	\$ 449,700
Penalties and fees	60,966
Interest income	540
TOTAL REVENUES	<u>511,206</u>

EXPENSES:

ADMINISTRATIVE EXPENSES

Security	258,066
Grounds/maintenance	51,721
Accounting/bookkeeping	25,600
Recording secretary	14,400
Utilities	10,252
FW flyer publication	9,756
Special events	8,929
Greeter	2,425
Bad debt expense	39,000
Miscellaneous	617
	<u>420,766</u>

PROFESSIONAL FEES

Legal fees - counsel/advice	9,330
Insurance	7,106
Audit and tax services	3,560
	<u>19,996</u>

OFFICE EXPENSES

Depreciation	1,023
Postage and supplies	6,231
Homeowner mailings	4,408
Miscellaneous	946
Property taxes	971
Computer software and hardware	224
	<u>13,803</u>

TOTAL EXPENSES

454,565

EXCESS OF REVENUES OVER EXPENSES

\$ 56,641

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

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STATEMENT OF HOMEOWNERS' EQUITY  
FOR THE YEAR ENDED AUGUST 31, 2013

BEGINNING HOMEOWNERS' EQUITY	\$ 332,986
EXCESS OF REVENUES OVER EXPENSES	<u>56,641</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 389,627</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of revenues over expenses	\$ 56,641
Depreciation expense	1,023
(Increase) decrease in assets –	
Assessments receivable	(43,025)
Prepaid insurance	(122)
Increase (decrease) in liabilities –	
Accounts payable	(531)

INCREASE IN CASH FROM OPERATING ACTIVITIES 13,986

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of equipment (42,954)

CASH, beginning of year 370,379

CASH, end of year \$ 341,411

SUPPLEMENTAL CASH FLOW INFORMATION:

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



# FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2013

### 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

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2013

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, 2013, 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, 2013, 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

NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2013

**NOTE 3. ALLOWANCE FOR UNCOLLECTIBLE 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 and was \$31,930 at August 31, 2013, which is approximately 15% 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, 2013, receivable of approximately \$201,028 have a lien on the property and is 97% of the total receivable balance. The allowance for uncollectible is approximately 22% of the balance with liens. During the year ended August 31, 2013, \$41,627 was written off as uncollectible.

As of August 31, 2013, \$162,631 was over 90 days due.

**NOTE 4. CONCENTRATIONS**

Cash balances at August 31, 2013 did not exceed federally insured limits.

The accounts receivable balance was \$208,267 as of August 31, 2013. Two homeowners were responsible for 58% 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 has evaluated subsequent events through the date these financial statements were available to be issued on October 22, 2013.