

FAIRWOOD GREENS
HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS
AUGUST 31, 2016

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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 AUDITOR'S 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 balance sheet as of August 31, 2016, and the related statements of revenues and expenses, homeowners' equity 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, 2016, 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 22, 2016

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

BALANCE SHEET
AUGUST 31, 2016

ASSETS

Cash and cash equivalents	\$ 534,015
Assessments receivable (net of allowance \$92,461)	189,469
Prepaid insurance	5,157
Equipment	116,293
Accumulated depreciation	<u>(92,771)</u>
 TOTAL ASSETS	 <u><u>\$ 752,163</u></u>

LIABILITIES AND HOMEOWNERS' EQUITY

LIABILITIES:

Accounts payable	\$ 24,888
Prepaid assessments	6,498
Unearned income	<u>149,900</u>
	181,286

HOMEOWNERS' EQUITY	<u>570,877</u>
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TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	<u><u>\$ 752,163</u></u>
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The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2016

REVENUES:

Member assessments	\$ 449,700
Penalties and fees	68,354
Interest income	373
TOTAL REVENUES	<u>518,427</u>

EXPENSES:

ADMINISTRATIVE EXPENSES

Security	269,568
Grounds/maintenance	51,744
Accounting/bookkeeping	26,700
Recording secretary	15,690
Special events	15,281
Utilities	10,156
Greeter	2,875
Bad debt expense	24,000
	<u>416,014</u>

PROFESSIONAL FEES

Insurance	9,382
Legal fees - counsel/advice	3,546
Audit and tax services	3,530
	<u>16,458</u>

OFFICE EXPENSES

Depreciation	6,136
Postage and supplies	5,294
Homeowner mailings	3,747
Property taxes	1,047
Dues and subscriptions	998
Computer software and hardware	488
	<u>17,710</u>

TOTAL EXPENSES

450,182

EXCESS OF REVENUES OVER EXPENSES

\$ 68,245

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF HOMEOWNERS' EQUITY
FOR THE YEAR ENDED AUGUST 31, 2016

BEGINNING HOMEOWNERS' EQUITY	\$ 502,632
EXCESS OF REVENUES OVER EXPENSES	<u>68,245</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 570,877</u></u>

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess of revenues over expenses	\$ 68,245
Depreciation expense	6,136
(Increase) decrease in assets –	
Assessments receivable	(28,084)
Prepaid insurance	(932)
Increase (decrease) in liabilities –	
Accounts payable	2,875
Prepaid assessments	711
Unearned income	-
	<hr/>
INCREASE IN CASH FROM OPERATING ACTIVITIES	48,951
CASH, beginning of year	<hr/> 485,064
CASH, end of year	<hr/> <hr/> \$ 534,015

SUPPLEMENTAL CASH FLOW INFORMATION:

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

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS AUGUST 31, 2016

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, 2016

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, 2016, 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, 2016, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes.

The Association'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, 2016

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 doubtful accounts has been established and was \$92,461 at August 31, 2016, which is approximately 33% 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, 2016, receivables of approximately \$259,109 have a lien on the property and are 92% of the total receivable balance. The allowance for doubtful accounts is approximately 36% of the balance with liens. During the year ended August 31, 2016, \$304 was written off as uncollectible.

As of August 31, 2016, \$245,911 was over 90 days due.

NOTE 4. CONCENTRATIONS

Cash balances at August 31, 2016 exceeded federally insured limits. The Association has not experienced any losses in such accounts.

The accounts receivable balance was \$281,930 as of August 31, 2015. One homeowner was responsible for 47% 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 November 22, 2016.