

MeadowWood Homeowners Association

Financial Statement and Independent Auditors' Report

December 31, 2014



MeadowWood Homeowners Association

December 31, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
MeadowWood Homeowners Association
Liberty Lake, Washington

We have audited the accompanying cash receipts and disbursements of MeadowWood Homeowners Association (a Washington corporation) (the Association) for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statement 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 statement.

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 statement referred to in the first paragraph presents fairly, in all material respects, the cash receipts and disbursements of MeadowWood Homeowners Association for the year ended December 31, 2014, in accordance with the cash basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. This financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

A handwritten signature in blue ink, appearing to read "Arasaci Juan Martin, P.C.", is written in a cursive style.

Spokane, Washington
January 11, 2016

MeadowWood Homeowners Association
Statement of Cash Receipts and Disbursements
Year Ended December 31, 2014

	Operating Fund	Savings Fund	Reserve Fund	Total
CASH RECEIPTS:				
Members' assessments:				
Operating dues, gross	\$ 301,347	\$ -	\$ -	\$ 301,347
Other	21,696	191	-	21,887
	<u>323,043</u>	<u>191</u>	<u>-</u>	<u>323,234</u>
CASH DISBURSEMENTS:				
Accounting fees	19,267	-	-	19,267
Insurance	7,083	-	-	7,083
Landscaping	131,896	-	-	131,896
Legal fees	590	-	-	590
Maintenance	315	-	-	315
Marketing	997	-	-	997
Office expenses	6,513	-	-	6,513
Other expenses	6,008	-	-	6,008
Property management fee	69,130	-	-	69,130
Streets	4,328	-	-	4,328
Payroll	782	-	-	782
Real estate taxes and licenses	1,902	-	-	1,902
Utilities	72,601	-	-	72,601
	<u>321,412</u>	<u>-</u>	<u>-</u>	<u>321,412</u>
MAJOR REPAIRS AND REPLACEMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE IN CASH	1,631	191	-	1,822
BEGINNING CASH	<u>25,145</u>	<u>117,888</u>	<u>1,180</u>	<u>144,213</u>
ENDING CASH	<u>\$ 26,776</u>	<u>\$ 118,079</u>	<u>\$ 1,180</u>	<u>\$ 146,035</u>

See accompanying notes to financial statements.

MeadowWood Homeowners Association

Notes to Financial Statement



MeadowWood Homeowners Association

Notes to Financial Statement

Note 1 – Nature of Organization

Organization's activities:

The MeadowWood Homeowners Association (the Association) was incorporated as a homeowners association corporation on December 20, 2004, in the state of Washington. The Association is responsible for the operation and maintenance of the common property within the subdevelopments of MeadowWood Commons, Garden Ridge, Rocky Hill, and Grayhawk. The entire development consists of more than 1,200 residential units located on approximately 900 acres in Liberty Lake, Washington.

Note 2 – Summary of Significant Accounting Policies

- a. **Basis of accounting:** The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and noncash transactions are not recognized.
- b. **Fund accounting** – The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:
 - **Operating Fund:** This fund is used to account for financial resources available for the general operations of the Association.
 - **Savings Fund:** This fund is used to accumulate excess financial resources from the Operating Fund.
 - **Reserve Fund:** This fund is used to accumulate financial resources designated for future major repairs and replacements.
- c. **Member assessments** – Association members are subject to quarterly or semiannual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are 30 days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.
- d. **Cash and cash equivalents** – Cash and cash equivalents include all unrestricted cash accounts and short-term liquid investments having an original maturity of three months or less.
- e. **Use of estimates** – The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- f. **Subsequent events** – In preparing the financial statement, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report on the financial statement, which is also the issuance date of the financial statement.

MeadowWood Homeowners Association

Notes to Financial Statement

Note 3 – Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2014, the Association was taxed as a regular corporation and filed Form 1120.

The Association has adopted Financial Accounting Standards Board *Accounting Standards Codification* (ASC) 740-10, relating to uncertain tax positions. ASC 740-10 prescribes a recognition threshold and measurement process for accounting for uncertain tax positions and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Association does not have any uncertain tax positions. The Association files Form 1120, *U.S. Income Tax Return for a Corporation*, and is no longer subject to U.S. federal tax examinations by tax authorities for years before 2011.

Note 4 – Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$1,180 at December 31, 2014, are held in a separate account and are generally not available for operating purposes.

In prior periods and for the year ended December 31, 2014, the Association funded the reserve fund for major repair and replacement expenditures as needed from excess operating fund assessments and excess funds held in the savings fund. The Association levied no additional special assessments for the year ended December 31, 2014.

In accordance with state of Washington RCW 64.34.380, the Association's Board of Directors initiated a reserve study in March 2012 to estimate the remaining useful lives and the replacement costs of the components of the development's common property. The study was conducted by a reserve study professional that inspected the property. Reserve studies are required no later than every three years. No additional reserve studies have occurred since March 2012.

The Association plans to fund such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering that there were previously no amounts accumulated in a replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

MeadowWood Homeowners Association

Notes to Financial Statement

Note 5 – Concentration of Credit Risk

The Association's cash and cash equivalents consist principally of money funds invested with one financial institution. Generally, cash and cash equivalents are available on demand and are subject to minimal market risk. Although possible, the Association does not expect that the amounts on deposit will exceed the insured limit of \$250,000 established by the United States Federal Deposit Insurance Corporation, which may potentially subject the Association to credit risk.

Note 6 – Commitments

The Association has entered into a contract with a company to facilitate the mowing and landscape maintenance of the common properties. The contract(s) call for nine monthly payments and there is a separate agreement for each subdevelopment with annual increases.

Clearwater Summit Group, Inc.

<u>Years Ending December 31,</u>	<u>Amount</u>
2015	\$ 129,344
2016	<u>131,577</u>
	<u><u>\$ 260,921</u></u>

The Association has entered into a contract with a property management company to perform certain accounting, management, and administrative functions. The agreement calls for a monthly fee based on the number of residential units. The monthly per unit dues are outlined below:

WEB Properties Inc.

	<u>Rate Per Lot/Home Assessed for Dues</u>	<u>Number of Residential Living Units (Estimated at Completion)</u>	<u>Estimated Contract Amount</u>
July 1, 2014 to June 30, 2015	\$ 4.25	1,200	\$ 61,200
July 1, 2015 to June 30, 2016	\$ 5.55	1,200	79,920
July 1, 2016 to June 30, 2017	\$ 5.00	1,200	<u>72,000</u>
			<u><u>\$ 151,920</u></u>

MeadowWood Homeowners Association

Supplementary Information



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
MeadowWood Homeowners Association
Liberty Lake, Washington

We have audited the financial statement of MeadowWood Homeowners Association as of and for the year ended December 31, 2014, and our report thereon dated January 11, 2016, which expressed an unmodified opinion on that financial statement, appears on page 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statement as a whole.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 9 be presented to supplement the basic financial statement. Such information, although not a part of the basic financial statement, is required by the Financial Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have not audited, reviewed, or compiled the required supplementary information, and, accordingly, we do not assume any responsibility for it.



Spokane, Washington
January 11, 2016

MeadowWood Homeowners Association

Information on Future Major Repairs and Replacements

Year Ended December 31, 2014

The Association's Board of Directors conducted a study in March 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
MeadowWood Commons:		
Concrete sidewalk; repair	14	\$ 6,350
Asphalt sidewalk; seal	3	3,121
Various monuments; maintain and mortar repointing	1	2,200
Replace various park playsets, benches, tables, etc.	9	33,070
Park asphalt paving; repair and seal, spot repairs	3	1,053
Little Bear sculptures; replace	19	4,000
Park asphalt paving, overlay	19	2,867
		52,661
Garden Ridge:		
Monuments; maintain	1	100
Fence columns; maintain	1	2,150
Fence panels	35	50,400
Streets; repair and seal, spot repairs	1	30,730
Streets; overlay	14	70,030
		153,410
Grayhawk:		
Monuments and fence columns; mortar repointing	1	3,000
Fence panels	37	20,230
Pinehurst Lane; repair and seal, spot repairs	0-1	7,545
Pinehurst Lane; overlay	9	19,781
		50,556
Rocky Hill:		
Street, parking, and alley; repair and seal, spot repairs	3-6	8,322
Concrete sidewalks; replace 5%	14	1,986
Asphalt sidewalks; repair and seal	3	1,944
Street, parking, and alley; overlay	24	21,884
		34,136
		\$ 290,763

The amount in reserves for future repairs and replacements at December 31, 2014, was \$1,180.

See accompanying independent auditors' report on supplemental information.