

MeadowWood Homeowners Association

Financial Statements and Independent Auditors' Report

December 31, 2015 and 2014



MeadowWood Homeowners Association

December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
MeadowWood Homeowners Association
Liberty Lake, Washington

We have audited the accompanying statements of cash receipts and disbursements of MeadowWood Homeowners Association (a Washington corporation) (the Association) for the years ended December 31, 2015 and 2014, 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 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 these financial statements 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 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 auditor's 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 auditor considers internal control relevant to the Association'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 Association'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 in the first paragraph present fairly, in all material respects, the cash receipts and disbursements of MeadowWood Homeowners Association for the years ended December 31, 2015 and 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 statements, which describes the basis of accounting. These financial statements are 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" followed by a name and "CPA".

Spokane, Washington

July 14, 2016

MeadowWood Homeowners Association
Statement of Cash Receipts and Disbursements
Year Ended December 31, 2015

	Operating Fund	Savings Fund	Reserve Fund	Total
CASH RECEIPTS:				
Members' assessments:				
Operating dues, gross	\$ 305,936	\$ -	\$ -	\$ 305,936
Other	8,820	162	1	8,983
	<u>314,756</u>	<u>162</u>	<u>1</u>	<u>314,919</u>
CASH DISBURSEMENTS:				
Accounting fees	6,720	-	-	6,720
Insurance	7,196	-	-	7,196
Landscaping	145,170	-	-	145,170
Legal fees	112	-	-	112
Maintenance	21,759	-	-	21,759
Marketing	1,555	-	-	1,555
Office expenses	4,352	-	-	4,352
Other expenses	4,198	-	-	4,198
Property management fee	74,938	-	-	74,938
Streets	2,158	-	-	2,158
Payroll	1,376	-	-	1,376
Real estate taxes and licenses	1,244	-	-	1,244
Utilities	85,020	-	-	85,020
	<u>355,798</u>	<u>-</u>	<u>-</u>	<u>355,798</u>
MAJOR REPAIRS AND REPLACEMENTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	(41,042)	162	1	(40,879)
NET TRANSFERS BETWEEN FUNDS	53,630	(53,630)	-	-
BEGINNING CASH	<u>26,776</u>	<u>118,079</u>	<u>1,180</u>	<u>146,035</u>
ENDING CASH	<u>\$ 39,364</u>	<u>\$ 64,611</u>	<u>\$ 1,181</u>	<u>\$ 105,156</u>

See accompanying notes to financial statements.

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 Statements



MeadowWood Homeowners Association

Notes to Financial Statements

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 statements have 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.

MeadowWood Homeowners Association

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (Continued)

- f. **Advertising and marketing** – The Association’s policy is to expense marketing costs when incurred. Marketing and advertising costs were \$1,555 and \$997 for the years ended December 31, 2015 and 2014, respectively.
- g. **Subsequent events** – In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the auditors’ report on the financial statements, which is also the issuance date of the financial statements.

Note 3 – Income Taxes

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2015, the Association will be taxed as a regular corporation and will file an extension for 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 files Form 1120, *U.S. Income Tax Return for a Corporation*, and does not have any uncertain tax positions.

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 \$1,181 and \$1,180 at December 31, 2015 and 2014, respectively, are held in a separate account and are generally not available for operating purposes.

In prior periods and for the year ended December 31, 2015, the Association funded 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, 2015.

In accordance with state of Washington RCW 64.34.065, 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 who inspected the property. Reserve studies are required no later than every three years unless doing so would impose an unreasonable hardship or the Board of Directors supersedes the requirement. No additional reserve studies have occurred since March 2012.

MeadowWood Homeowners Association

Notes to Financial Statements

Note 4 – Future Major Repairs and Replacements (Continued)

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.

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 Clearwater Summit Group, Inc., to facilitate the mowing and landscape maintenance of the common properties. The contract calls for nine monthly payments, and there is a separate agreement for each subdevelopment with annual increases.

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	<u><u>\$ 131,577</u></u>

The Association has entered into a contract with WEB Properties Inc., 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 fees are outlined below:

	<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, 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, 2015, and our report thereon dated July 14, 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 10 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
July 14, 2016

MeadowWood Homeowners Association

Information on Future Major Repairs and Replacements

Year Ended December 31, 2015

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 remaining useful lives have not been revised since the date of the study. In addition, 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, 2015 and 2014, was \$1,181 \$1,180, respectively.

See accompanying independent auditors' report on supplementary information.