

MEADOWWOOD HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENT
DECEMBER 31, 2018

MEADOWWOOD HOMEOWNERS ASSOCIATION

TABLE OF CONTENTS December 31, 2018

FINANCIAL STATEMENTS

Independent Auditor's Report	1 - 2
Statement of Cash Receipts and Disbursements	3
Notes to the Financial Statements	4 - 6
Supplementary Information.....	7 - 8

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
MeadowWood Homeowners Association
Liberty Lake, WA 99019

Report on the Financial Statements

We have audited the accompanying statements of cash receipts and disbursements of MeadowWood Homeowners Association (a Washington corporation) (the "Association") for the year ended December 31, 2018, 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 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 from 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 cash receipts, and disbursements of MeadowWood Homeowners Association as of December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, 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 statements in an appropriate operational, economic and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide and assurance.

Magnuson, McHugh & Company, P.A.

Magnuson, McHugh & Company, P.A.

April 17, 2020

MeadowWood Homeowners Association

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended December 31, 2018**

	<u>Operating Fund</u>	<u>Savings Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
CASH RECEIPTS				
Members' assessments:				
Operating dues, gross	\$ 496,125	\$ -	\$ -	\$ 496,125
Other	19,994	962	73	21,029
Total cash receipts	<u>516,119</u>	<u>962</u>	<u>73</u>	<u>517,154</u>
CASH DISBURSEMENTS				
Accounting fees	2,088	-	-	2,088
Insurance	8,029	-	-	8,029
Landscaping	177,759	-	-	177,759
Legal fees	1,540	-	-	1,540
Maintenance	7,632	-	-	7,632
Marketing	89	-	-	89
Office	4,922	-	-	4,922
Other administrative expense	9,075	-	-	9,075
Other expenses	462	-	-	462
Property management fee	85,963	-	-	85,963
Streets	4,181	-	-	4,181
Real estate taxes and licenses	(429)	-	-	(429)
Utilities	77,727	-	-	77,727
Total cash disbursements	<u>379,038</u>	<u>-</u>	<u>-</u>	<u>379,038</u>
MAJOR REPAIRS AND REPLACEMENTS	<u>-</u>	<u>-</u>	<u>18,507</u>	<u>18,507</u>
NET INCREASE (DECREASE) IN CASH	137,081	962	(18,434)	119,609
NET TRANSFERS BETWEEN FUNDS	(42,240)	(872)	43,112	-
CASH - BEGINNING OF YEAR	<u>68,287</u>	<u>35,907</u>	<u>24,048</u>	<u>128,242</u>
CASH - END OF YEAR	<u>\$ 163,128</u>	<u>\$ 35,997</u>	<u>\$ 48,726</u>	<u>\$ 247,851</u>

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

MeadowWood Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2018

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 sub-association of MeadowWood Commons, Garden Ridge, Rocky Hill, and Grayhawk. The entire development consists of more than 1,300 residential units located on approximately 900 acres in Liberty Lake, Washington.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 accounting principles generally accepted in the United States of America. 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.

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 accounting 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.

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.

(Continued)

MeadowWood Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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.

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.

Advertising and Marketing

The Association's policy is to expense marketing costs when incurred. Marketing and advertising costs were \$89 for the year ended December 31, 2018.

NOTE 3: INCOME TAXES

Homeowners associations may be taxed either as homeowners associations or as regular corporations. For the year ended December 31, 2018, the Association was taxed as a homeowners' association and filed Form 1120-H.

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 de-recognition, interest, penalties, and disclosures required. The Association files Form 1120-H, U.S. Income Tax Return for a Homeowners' Association, 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 \$48,726 at December 31, 2018, are held in a separate account and are generally not available for operating purposes.

For the year ended December 31, 2018, the Association funded the reserve fund by transferring funds as determined by the board of directors from the operating fund to the reserve fund. The Association levied no additional special assessments for the year ended December 31, 2018.

In accordance with the State of Washington RCW 64.34.065, the Association's board of directors initiated a reserve study in June 2017 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 on the board of directors supersedes the requirement.

(Continued)

MeadowWood Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2018

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONCLUDED)

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 insufficient 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 contracts to facilitate the mowing and landscape maintenance of the common properties. Mowing and landscape maintenance contracts for each sub-association were entered into with Clearwater Summit Group, Inc. Future payments related to these contracts are:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 158,314
2020	<u>166,230</u>
Total	<u>\$ 324,544</u>

The Association has entered into contracts with property management companies, to perform certain accounting, management, and administrative functions. The agreements call 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, 2018 to December 31, 2018	\$ 5.58	1,353	\$ 45,298
July 1, 2019 to June 30, 2022	5.58	1,353	<u>271,791</u>
Total			<u>\$ 317,089</u>

NOTE 7: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 17, 2020, the date of the auditors' report on the financial statements, which is also the issuance date of the financial statements.

(Concluded)

**MEADOWWOOD HOMEOWNERS ASSOCIATION
INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)**

The Association's board of directors conducted a study in June 2017 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.

MEADOWWOOD HOMEOWNERS ASSOCIATION
INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2018
(SEE INDEPENDENT AUDITORS' REPORT)

	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs
MEADOWWOOD COMMONS		
Concrete Sidewalk - Repair	10	\$ 10,242
Asphalt Sidewalk - Seal	2	3,041
Various Monuments - Maintain and Mortar Repainting	2-9	2,200
Replace Various Park Playsets, Benches, Tables, Etc.	5	51,400
Park Asphalt Paving - Repair, Seal, and Spot Repairs	2	993
Little Bear Sculptures - Replace	15	4,000
Park Asphalt Paving - Overlay	15	6,615
Park Renovation Allowance	5	7,500
Cottages Monument Wood Fences - Replace	1	2,000
Park Equipment Safety Repairs	1	5,900
Alley Asphalt - Sealing	2	4,520
Alley Asphalt - Chip Seal Overlay	15	6,673
Mailbox Replacement Allowance	7	10,500
Total Meadowwood Commons		115,584
GARDEN RIDGE		
Monuments - Maintain	8	600
Fence Columns - Maintain	8	8,600
Fence Panels	5-31	58,800
Streets - Repair and Seal	2	52,278
Streets - Overlay	8	35,785
Streets - Crack Seal	1	3,500
Mailbox Replacement Allowance	1	12,000
Total Garden Ridge		171,563
GRAYHAWK		
Monuments and Fence Columns - Repair	1	4,250
Fence Panels - Replace	33	20,400
Fence - Clean and Spot Repaint	5	3,400
Pinehurst Lane - Repair, Seal, and Spot Repair	2	9,369
Pinehurst Lane - Overlay	9	10,108
Mailbox Replacement Allowance	1	4,500
Total Grayhawk		52,027
ROCKY HILL		
Street, Parking, and Alley - Repair, Seal, and Spot Repairs	1-20	22,007
Concrete Sidewalks - Repair	12	3,204
Asphalt Walkways - Seal	2	1,894
Mailbox Replacement Allowance	5	3,000
Total Rocky Hill		30,105
Total Future Major Repairs and Replacements		\$ 369,279

See Note 4 to the financial statements for additional information regarding the reserve study and future repair and replacement costs.