

MEADOWWOOD HOMEOWNERS  
ASSOCIATION

FINANCIAL STATEMENT  
DECEMBER 31, 2020

**MEADOWWOOD HOMEOWNERS ASSOCIATION**

**TABLE OF CONTENTS**  
**December 31, 2020**

**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 financial statements of MeadowWood Homeowners Association (a Washington corporation) (the "Association"), which comprise the statement of cash receipts and disbursements as of December 31, 2020, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the cash receipts and disbursements of MeadowWood Homeowners Association as of December 31, 2020, in accordance with the cash basis of accounting as described in Note 2.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of MeadowWood Homeowners Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Emphasis of Matter – Basis of Accounting***

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The 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 this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the 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.

## **INDEPENDENT AUDITOR'S REPORT (CONCLUDED)**

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MeadowWood Homeowners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MeadowWood Homeowners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information about future major repairs and replacements of common property on page 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Magnuson, McHugh & Company, P.A.*

Magnuson, McHugh & Company, P.A.

March 2, 2022

## MeadowWood Homeowners Association

### STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS For the Year Ended December 31, 2020

|  | Operating<br>Fund | Savings<br>Fund | Reserve<br>Fund | Total      |
|--|-------------------|-----------------|-----------------|------------|
| <b>CASH RECEIPTS</b>                   |                   |                 |                 |            |
| Members' assessments:                  |                   |                 |                 |            |
| Operating dues, gross                  | \$ 508,198        | \$ -            | \$ -            | \$ 508,198 |
| Other                                  | 3,229             | 267             | 306             | 3,802      |
| Total cash receipts                    | 511,427           | 267             | 306             | 512,000    |
| <b>CASH DISBURSEMENTS</b>              |                   |                 |                 |            |
| Insurance                              | 13,733            | -               | -               | 13,733     |
| Landscaping                            | 192,168           | -               | -               | 192,168    |
| Legal fees                             | 9,594             | -               | -               | 9,594      |
| Maintenance                            | 13,146            | -               | -               | 13,146     |
| Office                                 | 684               | -               | -               | 684        |
| Other administrative expense           | 507               | -               | -               | 507        |
| Other expenses                         | 16,047            | -               | -               | 16,047     |
| Property management fee                | 90,636            | -               | -               | 90,636     |
| Streets                                | 9,431             | -               | -               | 9,431      |
| Real estate taxes and licenses         | 12                | -               | -               | 12         |
| Utilities                              | 77,646            | -               | -               | 77,646     |
| Total cash disbursements               | 423,604           | -               | -               | 423,604    |
| <b>MAJOR REPAIRS AND REPLACEMENTS</b>  |                   |                 |                 |            |
|  | -                 | -               | 37,652          | 37,652     |
| <b>NET INCREASE (DECREASE) IN CASH</b> |                   |                 |                 |            |
|  | 87,823            | 267             | (37,346)        | 50,744     |
| <b>NET TRANSFERS BETWEEN FUNDS</b>     |                   |                 |                 |            |
|  | (127,327)         | 50,234          | 77,093          | -          |
| <b>CASH - BEGINNING OF YEAR</b>        |                   |                 |                 |            |
|  | 191,125           | 36,179          | 77,674          | 304,978    |
| <b>CASH - END OF YEAR</b>              |                   |                 |                 |            |
|  | \$ 151,621        | \$ 86,680       | \$ 117,421      | \$ 355,722 |

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

# MeadowWood Homeowners Association

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2020

### 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 1,400 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.

#### 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.

(Continued)

# MeadowWood Homeowners Association

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2020

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

#### 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 \$0 for the year ended December 31, 2020.

### NOTE 3: INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2020, 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 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 \$117,421 at December 31, 2020, are held in a separate account and are generally not available for operating purposes.

For the year ended December 31, 2020, 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, 2020.

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 every three years unless doing so would impose an unreasonable hardship on the board of directors which would then supersede the requirement.

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.

(Continued)



# MeadowWood Homeowners Association

## NOTES TO THE FINANCIAL STATEMENTS December 31, 2020

### 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 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:

| Year Ending December 31, | Amount     |
|--------------------------|------------|
| 2021                     | \$ 227,536 |
| 2022                     | 230,597    |
| 2023                     | 242,127    |
| Total                    | \$ 700,260 |

The Association has a contract through September with Ponderosa Management for accounting, management, and administrative functions. From October through November Ponderosa provided only accounting services at \$5,500 per month. As of December 1, 2021, the Association entered a contract with Rockwood Management and is effective for 12 months. The agreement calls for a monthly fee based on the estimated number of residential units. Future payments for this contract are:

| Year Ending December 31, | Rate Per<br>Lot/Home<br>Assessed<br>for Dues | Number of<br>Residential<br>Living Units<br>(Estimated at<br>Completion) | Estimated<br>Contract<br>Amount |
|--------------------------|--|--|---------------------------------|
| 1/1/2021 thru 9/30/21    | 5.58   | 1,447  | \$ 72,668                       |
| 10/1/21 thru 11/31/21    |  |  | 11,000                          |
| 12/1/21 thru 12/31/21    | 5.25   | 1,447  | 7,597                           |
| 1/1/22 thru 12/31/22     | 5.25   | 1,447  | 91,161                          |
| Total                    |  |  | \$ 182,426                      |

### NOTE 7: SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosures through March 2, 2022, the date of the auditors' report on the financial statements, which is also the issuance date of the financial statements.

**MEADOWWOOD HOMEOWNERS ASSOCIATION  
INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)  
YEAR ENDED DECEMBER 31, 2020  
(SEE INDEPENDENT AUDITOR'S REPORT)**

The Association's board of directors had a study conducted 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 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.

**MeadowWood Homeowners Association**

**INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)**

**For the Year Ended December 31, 2020**

**(SEE INDEPENDENT AUDITOR'S REPORT)**

|   | Estimated Useful<br>Lives (Years)*** | Estimated Current<br>Replacement Costs |
|---|--------------------------------------|--|
| <b>MEADOWWOOD COMMONS</b>                                   |                                      |  |
| Concrete Sidewalk - Repair                                  | 11                                   | \$ 10,242                              |
| Asphalt Sidewalk - Seal                                     | 3                                    | 3,041                                  |
| Various Monuments - Maintain and Mortar Repainting          | 3-11                                 | 2,200                                  |
| Replace Various Park Playsets, Benches, Tables, Etc.        | 6                                    | 51,400                                 |
| Park Asphalt Paving - Repair, Seal, and Spot Repairs        | 3                                    | 993                                    |
| Little Bear Sculptures - Replace                            | 16                                   | 4,000                                  |
| Park Asphalt Paving - Overlay                               | 16                                   | 6,615                                  |
| Park Renovation Allowance                                   | 6                                    | 7,500                                  |
| Cottages Monument Wood Fences - Replace                     | 2                                    | 2,000                                  |
| Park Equipment Safety Repairs                               | 2                                    | 5,900                                  |
| Alley Asphalt - Sealing                                     | 3                                    | 4,520                                  |
| Alley Asphalt - Chip Seal Overlay                           | 16                                   | 6,673                                  |
| Mailbox Replacement Allowance                               | 2                                    | 10,500                                 |
| Total MeadowWood Commons                                    |                                      | 115,584                                |
| <b>GARDEN RIDGE</b>   |                                      |  |
| Monuments - Maintain  | 9                                    | 600                                    |
| Fence Columns - Maintain                                    | 9                                    | 8,600                                  |
| Fence Panels  | 6-32                                 | 58,800                                 |
| Streets - Repair and Seal                                   | 3                                    | 52,278                                 |
| Streets - Overlay   | 9                                    | 35,785                                 |
| Streets - Crack Seal  | 2                                    | 3,500                                  |
| Mailbox Replacement Allowance                               | 2                                    | 12,000                                 |
| Total Garden Ridge  |                                      | 171,563                                |
| <b>GRAYHAWK</b>   |                                      |  |
| Monuments and Fence Columns - Repair                        | 2                                    | 4,250                                  |
| Fence - Clean and Spot Repaint                              | 6                                    | 3,400                                  |
| Pinehurst Lane - Repair, Seal, and Spot Repair              | 3                                    | 9,369                                  |
| Pinehurst Lane - Overlay                                    | 10                                   | 10,108                                 |
| Mailbox Replacement Allowance                               | 2                                    | 4,500                                  |
| Total Grayhawk  |                                      | 31,627                                 |
| <b>ROCKY HILL</b>   |                                      |  |
| Street, Parking, and Alley - Repair, Seal, and Spot Repairs | 1-21                                 | 22,007                                 |
| Concrete Sidewalks - Repair                                 | 13                                   | 3,204                                  |
| Asphalt Walkways - Seal                                     | 3                                    | 1,894                                  |
| Mailbox Replacement Allowance                               | 6                                    | 3,000                                  |
| Total Rocky Hill  |                                      | 30,105                                 |
| Total Future Major Repairs and Replacements                 |                                      | \$ 348,879                             |

\*\*\*This amount will remain constant on this report and is just to show the life span of each repair/replacement. Once a repair or replacement is completed (put into service), the individual useful life will start.

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