

MEADOWWOOD HOMEOWNERS
ASSOCIATION

FINANCIAL STATEMENT
DECEMBER 31, 2021

MEADOWWOOD HOMEOWNERS ASSOCIATION

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December 31, 2021

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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 arising from cash transactions as of December 31, 2021, and the related revenue collected and expenses paid for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of cash receipts and disbursements arising from cash transactions of MeadowWood Homeowners Association as of December 31, 2021, and its revenue collected and expenses paid during the year then ended in accordance with the cash receipts and disbursements basis of accounting 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 the 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.

November 15, 2022

MeadowWood Homeowners Association

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For the Year Ended December 31, 2021

	<u>Operating Fund</u>	<u>Savings Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
CASH RECEIPTS				
Members' assessments:				
Operating dues, gross	\$ 455,398	\$ -	\$ -	\$ 455,398
Other	21,210	107	278	21,595
Total cash receipts	<u>476,608</u>	<u>107</u>	<u>278</u>	<u>476,993</u>
CASH DISBURSEMENTS				
Accounting fees	500	-	-	500
Insurance	12,766	-	-	12,766
Landscaping	267,071	-	-	267,071
Legal fees	13,934	-	-	13,934
Maintenance	23,415	-	-	23,415
Office	6,535	-	-	6,535
Other expenses	800	-	-	800
Property management fee	78,977	-	-	78,977
Streets	15,443	-	-	15,443
Real estate taxes and licenses	14	-	-	14
Utilities	91,326	-	-	91,326
Income tax	129	-	-	129
Grayhawk payout	5,072	-	25,199	30,271
Total cash disbursements	<u>515,982</u>	<u>-</u>	<u>25,199</u>	<u>541,181</u>
MAJOR REPAIRS AND REPLACEMENTS	<u>-</u>	<u>-</u>	<u>26,906</u>	<u>26,906</u>
NET INCREASE (DECREASE) IN CASH	(39,374)	107	(51,827)	(91,094)
NET TRANSFERS BETWEEN FUNDS	(46,866)	(86,787)	133,653	-
CASH - BEGINNING OF YEAR	<u>151,621</u>	<u>86,680</u>	<u>117,421</u>	<u>355,722</u>
CASH - END OF YEAR	<u>\$ 65,381</u>	<u>\$ -</u>	<u>\$ 199,247</u>	<u>\$ 264,628</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, 2021

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. As of October 20, 2021, Grayhawk legally separated themselves from the Association and as of December 1, 2021, Grayhawk had financially disassociated itself from the Association.

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 was used to accumulate excess financial resources from the Operating Fund, but all accounts were closed in 2021 and funds were transferred to the Reserve 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, 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Cash

Cash includes 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 receipts and disbursements 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 advertising and marketing costs when incurred. Advertising and marketing costs were \$0 for the year ended December 31, 2021.

NOTE 3: INCOME TAXES

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2021, 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 \$199,247 at December 31, 2021, are held in a separate account and are generally not available for operating purposes.

For the year ended December 31, 2021, 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, 2021.

In accordance with the State of Washington RCW 64.34.065, the Association's board of directors initiated a reserve study in August 2020 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.

(Continued)

MeadowWood Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS December 31, 2021

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 consists principally of money funds invested with one financial institution. Generally, cash is available on demand and are subject to minimal market risk. These financial instruments may subject the Association to concentrations of credit risk and, at time to time, cash balances may exceed FDIC insured balances. At December 31, 2021, bank balance exceeded FDIC insurance limits by \$43,778.

NOTE 6: COMMITMENTS

The Association has entered into contracts to facilitate the painting, 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>Clearwater Summit</u>	<u>Preble Painting</u>	<u>Total Amounts</u>
2022	235,044	15,000	\$ 250,044
2023	246,796	17,250	264,046
2024		19,838	19,838
			<u>\$ 533,928</u>

The Association has 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:

<u>Year Ending December 31,</u>	<u>Rate Per Lot/Home Assessed for Dues</u>	<u>Number of Residential Living Units (Estimated at Completion)</u>	<u>Estimated Contract Amount</u>
2022	5.25	1,435	\$ 67,804
Total			<u>\$ 67,804</u>

(Continued)

MeadowWood Homeowners Association

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

NOTE 7: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 15, 2022, the date on which the financial statements were available to be issued.

**MEADOWWOOD HOMEOWNERS ASSOCIATION
INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2021
(SEE INDEPENDENT AUDITOR'S REPORT)**

The Association's board of directors had a study conducted in August 2020 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)
YEAR ENDED DECEMBER 31, 2021
(SEE INDEPENDENT AUDITOR'S REPORT)**

Meadowwood Homeowners Association

**INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENT (UNAUDITED)
For the Year Ended December 31, 2021
(SEE INDEPENDENT AUDITOR'S REPORT)**

	Estimated Useful Lives (Years)***	Estimated Current Replacement Costs
MEADOWWOOD COMMONS		
Concrete Sidewalk - Repair	5	\$ 2,500
Asphalt - Resurface	40	113,850
Asphalt - Seal Coat	5	12,950
Asphalt Path - Resurface	40	55,900
Asphalt Path - Seal/Repair	5	5,600
Wood Fence - Paint	5	13,100
Landscape - Refurbish	5	3,500
Irrigation System - Repair/Replace	5	2,500
Trees - Trim/Remove/Replace	5	2,500
Monument Sign	25	10,500
Mailbox - Replace	5	32,000
Playground Equipment - Replacement	20	63,900
Wood Chips - Replenish	3	5,700
Site Furniture - Replace	20	7,300
Total MeadowWood Commons		331,800
 GARDEN RIDGE		
Asphalt - Resurface/Seal Coat	5-40	249,350
Metal Fence Replace/Repaint	10-50	127,700
Landscape - Refurbish	5	2,500
Irrigation System - Repair/Replace	5	1,500
Monument Sign - Replace	25	1,500
Mailboxes - Replace	25	12,800
Total Garden Ridge		395,350
 ROCKY HILL		
Asphalt - Resurface/Seal Coat	5-40	81,200
Vinyl Fence - Replace	30	23,250
Landscape - Refurbish	5	2,500
Irrigation System - Repair/Replace	5	1,500
Mailboxes - Replace	25	3,200
Total Grayhawk		111,650
Total Future Major Repairs and Replacements		\$ 838,800

***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.