



Condominium Homeowners' Association



*Audit Report
Financial Statements
&
Supplementary Information
December 31, 2012*

Prepared by:

Cagianut & Company

CERTIFIED PUBLIC ACCOUNTANT

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Members - Community Associations Institute – Washington State
Washington Society of Certified Public Accountants
American Institute of Certified Public Accountants

Independent Auditors' Report

To the Board of Directors and Members
[REDACTED] Condominium Homeowner's Association
[REDACTED] Washington

Report on the Financial Statements

We have audited the accompanying financial statements of [REDACTED] Condominium Homeowner's Association, which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended and the related notes to the financial statements.

Association's Responsibility for the Financial Statements

The Association is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 of 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 Clean Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [REDACTED] Condominium Homeowner's Association as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplementary Information

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future repairs and replacements are adequate to meet such future costs because that determination is outside the scope of our audit.

Accounting principles generally accepted in the United States of America [GAAP] require that the Supplementary Information on Future Major Repairs 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 financial reporting and for placing the basic financial statements and related notes in an appropriate operational, economic, or 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 any assurance.

Carpenter & Company, CPA

Bellevue, Washington

April 2, 2013

Condominium Homeowner's Association
Balance Sheet
December 31, 2012

	OPERATING FUND	REPLACEMENT FUND	TOTAL
ASSETS			
Cash, including interest bearing deposits	\$ 5,014	\$ 257,572	\$ 262,586
Assessments Receivable	51,429		51,429
Less: Allowance for Bad Debts	(32,994)		(32,994)
Prepaid Income Taxes	54		54
Other Receivable	922		922
Special Assessment Receivable		147	147
Due Between Funds	5,784	(5,784)	
TOTAL ASSETS	\$ 30,210	\$ 251,935	\$ 282,145
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 6,427		\$ 6,427
Assessments Received in Advance	4,055		4,055
Security Deposit	780		780
Construction Loan		\$ 50,472	50,472
Deposit	22		22
TOTAL LIABILITIES	11,285	50,472	61,757
FUND BALANCES			
Operating	18,925		18,925
Replacement		201,463	201,463
TOTAL FUND BALANCES	18,925	201,463	220,388
TOTAL LIABILITIES AND FUND BALANCES	\$ 30,210	\$ 251,935	\$ 282,145

Reserves owed operating

Operating Fund balance s/b 1-3 months of operating expenses - see page 5 (Approx 1 month)


Condominium Homeowner's Association
 Statement of Changes in Fund Balances
 For the Year Ended December 31, 2012

	OPERATING FUND	REPLACEMENT FUND	TOTAL
Balance at the Beginning of the Year	\$ 25,908	\$ 159,964	\$ 185,872
Excess <Deficiency> of Revenues over Expenses	(6,983)	41,500	34,517
Balance at the End of the Year	<u>\$ 18,925</u>	<u>\$ 201,463</u>	<u>\$ 220,388</u>

Condominium Homeowner's Association
Statement of Revenues and Expenses
For the Year Ended December 31, 2012

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Assessments	\$ 190,150	\$ 96,890	\$ 287,040
Special Assessments		2,069	2,069
Late Fees/NSF Fees	4,428		4,428
Legal Fees	25,437		25,437
Move In Fees	1,400		1,400
Interest	19	651	671
Miscellaneous	225		225
TOTAL REVENUES	221,659	99,610	321,269
EXPENSES			
Audit & Tax Preparation	2,000		2,000
Bad Debts	24,889		24,889
Electricity	1,435		1,435
Insurance	32,686		32,686
Landscape	43,065		43,065
Legal	1,942		1,942
Legal - Reimbursable	25,934		25,934
Management	19,020		19,020
Miscellaneous	741		741
Office Supplies	1,122		1,122
Repairs & Maintenance	14,167		14,167
Water & Sewer	61,641		61,641
Reserve Expenses			
Loan Interest and Fees		2,036	2,036
Painting		5,353	5,353
Roof		48,652	48,652
Special Assessment - Storm Clean Up		2,069	2,069
TOTAL EXPENSES	228,642	58,111	286,753
EXCESS <DEFICIENCY> OF REVENUES OVER EXPENSES	\$ (6,983)	\$ 41,500	\$ 34,517

Net Loss - 3%

Monthly operating
expenses = \$19K

██████████ Condominium Homeowner's Association
Statement of Cash Flows
For the Year Ended December 31, 2012

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<i>Cash Flows from Operating Activities:</i>			
Cash from Assessments	\$ 171,265	\$ 96,890	\$ 268,155
Cash from Special Assessments		1,922	1,922
Interest Received	19	651	671
Miscellaneous Income	31,490		31,490
Income Taxes Paid	(105)		(105)
Interest and Loan Fees Paid		(2,036)	(2,036)
Cash Paid for Services and Products	(192,409)	(56,075)	(248,483)
Net Increase <Decrease> in Cash from Operating Activities	10,260	41,352	51,612
<i>Cash Flows from Financing Activities:</i>			
Loan Proceeds		50,472	50,472
Change in Due Between Funds	(7,589)	7,589	
Net Increase <Decrease> in Cash	2,672	99,413	102,084
Cash, including interest bearing deposits, at the Beginning of Year	2,342	158,159	160,501
Cash, including interest bearing deposits, at the End of Year	<u>\$ 5,014</u>	<u>\$ 257,572</u>	<u>\$ 262,586</u>

Reconciliation of Excess <Deficiency> of Revenues over Expenses to Net Cash Received by Operations:

Excess <Deficiency> of			
Revenues over Expenses	\$ (6,983)	\$ 41,500	\$ 34,517
Increased Assessments Receivable	(18,343)		(18,343)
Increased Bad Debt Allowance	22,932		22,932
Decreased Prepaid Insurance	10,463		10,463
Increased Prepaid Taxes	(54)		(54)
Increased Other Receivable	(922)		(922)
Increased Special Assessment Receivable		(147)	(147)
Increased Accounts Payable	3,013		3,013
Decreased Prepaid Assessments	(542)		(542)
Decreased Taxes Payable	(105)		(105)
Increased Security Deposit	780		780
Increased Deposit	22		22
Net Increase <Decrease> in Operating Cash	<u>\$ 10,260</u>	<u>\$ 41,352</u>	<u>\$ 51,612</u>

██████████ Condominium Homeowner's Association
Notes to the Financial Statements
December 31, 2012

Footnotes

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

██████████ Condominium Homeowner's Association was incorporated May 6, 19██ in the state of Washington as a nonprofit corporation. The Association is responsible for the operation and maintenance of the common property. This is a ███ unit condominium development located in ███ Washington.

Accounting Method

The Association prepares its statements on the accrual basis of accounting whereby income and expenses are recognized when earned and incurred. Fund accounting is employed to properly account for the monies. The Operating Fund is used to pay for all utility, insurance, general maintenance, landscaping, and administrative obligations of the Association. The Replacement Fund has been established to meet the replacement and major repair obligations of the Association with regard to the common area components.

Capitalization Policy

Replacements and improvements to the real property are not capitalized on the books of the Association as title is held by the members as a fractional interest as tenants in common. Property and equipment acquired by the Association are recorded at cost. The property is depreciated over its estimated useful lives using the straight line method of depreciation.

Assessments Receivable

Association members are subject to assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's Declaration provides for various collection remedies for delinquent assessments including the filing of liens, foreclosing on the unit owner, and obtaining judgment on the assets of the unit owner. The Association uses the allowance method to account for uncollectible assessments receivable.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash, including Interest Bearing Deposits

For purposes of the statement of cash flows, Cash, including Interest Bearing Deposits, includes cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

Date of Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through the date of the audit report, which is the date that the financial statements were available to be issued.

Condominium Homeowner's Association
Notes to the Financial Statements
December 31, 2012

NOTE 2 - REPLACEMENT FUNDING PROGRAM

The Association is currently funding replacement reserve accounts for the future major repair and replacement of Association common areas as disclosed in Note 1. Accumulated funds are held in separate accounts and are generally not available for operating purposes. The funding is based upon a professional reserve study approved by the board of directors.

Funds are being accumulated in the replacement fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and variations may be material. Therefore, the amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to certain legal limitations, to increase assessments, pass special assessments, or delay replacement if these funds are found to be inadequate for all future costs.

As of the end of the year, the Association is not in compliance with certain FHA replacement fund requirements.

NOTE 3 - FEDERAL INCOME TAXES

Associations may be taxed either as homeowners associations or as regular corporations. For the current year the Association elected to file as a homeowners association using form 1120-H under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance and care of Association property. Net nonexempt function income which includes interest, user fees and revenues from non-members is taxed at 30%. Certain expenses were allocated to offset a portion of the taxable income.

The Association's federal tax return is subject to audit by the Internal Revenue Service. The tax returns for the current and prior two fiscal years remain open for examination by the IRS. In evaluating the Association's tax positions and accruals, the Association believes that its estimates are appropriate based on the current facts and circumstances.

NOTE 4 - OWNERS' ASSESSMENTS

Monthly assessments to owners were \$260.00. Of this amount, a portion was designated to the replacement fund.

The annual budget and owners' assessments are determined by the Board of Directors, within certain restrictions. The Association retains excess operating funds at the end of the year, if any, for use in future operating periods.

NOTE 5 - FHA CERTIFICATION

The Association has received approval from the Federal Housing Administration (FHA) with regards to FHA insured mortgages. This approval expires May 11, 2014.

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Notes to the Financial Statements
December 31, 2012

NOTE 6 - STORM CLEAN UP SPECIAL ASSESSMENT

In March of 2012, the Board approved a Special Assessment of \$2,069 for the purpose of funding the damage to the common area which was due to the snow, ice and wind storm in early 2012. The special assessment was \$22.49 per unit. The amount was due and payable by April 30, 2012. As of 12/31/12 the remaining amount receivable was \$147.43.

NOTE 7 - UNINSURED CASH BALANCES

The Association's cash deposits are with various financial institutions. Certain accounts are insured up to a maximum of \$250,000 at each institution by the Federal Deposit Insurance Corporation ("FDIC"). In addition most noninterest bearing transaction accounts are fully insured, regardless of the balance of the account. At the end of the year, bank balances exceeded the amount insured by the FDIC by over \$20,000.

NOTE 8 - CONSTRUCTION LOAN

On September 26, 2012 the board closed on a 15 year line of credit with ██████████ Bank in the amount of \$352,346 for the purpose of funding the roof project. The interest rate for this loan is fixed for the initial 60 months of the Loan at a rate of 4.75%. The interest rate may change on September 15, 2017 and again 5 years later to a rate equal to the greater of 4.75% or the 5 year U.S. Treasury Constant Maturity rate, plus 3.00%.

Interest only is paid on the unpaid principal balance of the loan until September 15, 2013 when principal and interest shall be payable by 168 successive monthly payments commencing with the first payment on October 15, 2013 and continuing until both principal and interest have been fully paid by September 15, 2027.

As of 12/31/12, the Association made four advances on the line totaling \$48,652. Loan fees incurred were \$1,820 and interest paid was \$216.

Condominium Homeowner's Association

December 31, 2012

Supplementary Information on Future Major Repairs and Replacements (Unaudited)

An update "no-site-visit" reserve study was prepared on February 10, 2011 by [REDACTED] for the period beginning March 1, 2011 to December 31, 2011 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3.0% and interest of 0.70%, net of taxes, on amounts funded for future major repairs and replacements. The following table is based on the study and presents significant information about the components of common property.

Component	Estimated Remaining Useful Life	Estimated Future Replacement Costs	Fund Balance at Year End
Asphalt - Resurface	20 yrs.	\$ 251,049	
Asphalt - Seal/Repair	0 yrs.	13,859	
HVAC Unit - Replace	4 yrs.	4,502	
Interior Lights - Replace	6 yrs.	1,433	
Kitchen - Replace	9 yrs.	4,567	
Mailboxes - Replace	7 yrs.	14,267	
Chain Link Fence - Replace	18 yrs.	33,095	
Swale Picket Fence - Replace	0 yrs.	17,138	
Swale Picket Fence - Replace	12 yrs.	4,021	
Wood Split Rail Fence - Replace	2 yrs.	4,604	
Wood Board Fence - Replace	4 yrs.	14,626	
Wood Board Fence - Replace	14 yrs.	15,655	
Carpet - Replace	1 yr.	6,257	
Furniture - Replace	1 yr.	4,635	
Bathroom - Refurbish	1 yr.	2,060	
Irrigation System - Repair/Replace	2 yrs.	3,183	
Interior Surfaces - Repaint	2 yrs.	2,971	
Wood Surfaces - Repaint	8 yrs.	20,902	
Wood Surfaces - Repaint	3 yrs.	9,015	
Wood Surfaces - Repaint	9 yrs.	19,572	
Wood Surfaces - Repaint	4 yrs.	8,441	
Wood Surfaces - Repaint	0 yrs.	20,159	
Wood Surfaces - Repaint	5 yrs.	8,695	
Wood Surfaces - Repaint	1 yr.	15,450	
Wood Surfaces - Repaint	6 yrs.	8,955	
Wood Surfaces - Repaint	2 yrs.	15,914	
Wood Surfaces - Repaint	7 yrs.	9,224	
Vinyl Siding - Replace	28 yrs.	1,153,116	
Comp Shingle Roof	0 yrs.	188,440	
Comp Shingle Roof	1 yr.	92,700	
Comp Shingle Roof	2 yrs.	95,481	
Comp Shingle Roof	3 yrs.	98,345	
Comp Shingle Roof	4 yrs.	106,361	
Gutters/Downspouts - Repair/Replace	12 yrs.	57,743	
Entry Sign - Replace	4 yrs.	2,251	
Street Trees - Remove & Replace	0 yrs.	28,043	
Street Trees - Remove & Replace	1 yr.	18,540	
Street Trees - Remove & Replace	2 yrs.	19,096	
Street Trees - Remove & Replace	3 yrs.	19,669	
Street Trees - Remove & Replace	4 yrs.	20,259	
Street Trees - Remove & Replace	5 yrs.	8,695	
Entry Sign - Replace	4 yrs.	2,251	
TOTAL			\$ 201,463

Percent Funded as of March 1, 2011 - 33.0%

Optional Disclosure