

FAIRWOOD GREENS
HOMEOWNERS' ASSOCIATION

FINANCIAL STATEMENTS
AUGUST 31, 2023

TABLE OF CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR’S REPORT.....	1-2
FINANCIAL STATEMENTS:	
Balance Sheet.....	3
Statement of Revenues and Expenses.....	4
Statement of Homeowners’ Equity.....	5
Statement of Cash Flows	6
Notes to the Financial Statements.....	7-9



LUBY & THOMSON, PLLC
C e r t i f i e d P u b l i c A c c o u n t a n t s

11911 Northeast 1st Street, Suite 304, Bellevue, Washington 98005
(206) 628-4991 Fax (206) 682-3977

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fairwood Greens Homeowners' Association
Renton, Washington

Opinion

We have audited the accompanying financial statements of Fairwood Greens Homeowners' Association, which comprise the balance sheet as of August 31, 2023, and the related statements of revenues and expenses, homeowners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fairwood Greens Homeowners' Association as of August 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Fairwood Greens 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Fairwood Greens Homeowners' Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Fairwood Greens 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 Fairwood Greens 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted the required supplementary information about future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Luby + Thomson

Luby & Thomson, PLLC
Certified Public Accountants
Bellevue, Washington
June 17, 2024

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

BALANCE SHEET
FOR THE YEAR ENDED AUGUST 31, 2023

ASSETS

Cash and cash equivalents	\$ 215,454
Accounts receivable (net of allowance of \$19,134)	82,854
Prepaid insurance	7,976
Prepaid other	7,118
Equipment	141,959
Accumulated depreciation	<u>(119,891)</u>
 TOTAL ASSETS	 <u><u>\$ 335,470</u></u>

LIABILITIES AND HOMEOWNERS' EQUITY

LIABILITIES:

Accounts payable	\$ 40,433
Prepaid assessments	10,134
Unearned income	<u>189,000</u>
	239,567

HOMEOWNERS' EQUITY	<u>95,903</u>
--------------------	---------------

TOTAL LIABILITIES AND HOMEOWNERS' EQUITY	<u><u>\$ 335,470</u></u>
---	--------------------------

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2023

REVENUES:	
Member assessments	\$ 535,206
Penalties and fees	51,326
Interest income	387
TOTAL REVENUES	<u>586,919</u>
EXPENSES:	
PROPERTY AND ADMINISTRATIVE EXPENSES	
Security	395,443
Grounds/maintenance	42,769
Legal settlement	37,500
Accounting/bookkeeping	30,000
Recording secretary	30,000
Utilities	15,546
Special events	13,289
Depreciation	2,605
Bad debt expense	26,000
	<u>593,152</u>
PROFESSIONAL FEES	
Legal fees - counsel/advice	30,794
Insurance	18,363
Audit and tax services	1,540
	<u>50,697</u>
OFFICE EXPENSES	
Homeowner mailings	14,435
Dues and subscriptions	12,303
Postage and supplies	8,672
Property taxes	1,677
	<u>37,087</u>
TOTAL EXPENSES	<u>680,936</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>(94,017)</u></u>

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

STATEMENT OF HOMEOWNERS' EQUITY
FOR THE YEAR ENDED AUGUST 31, 2023

BEGINNING HOMEOWNERS' EQUITY	\$ 189,920
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u>(94,017)</u>
ENDING HOMEOWNERS' EQUITY	<u><u>\$ 95,903</u></u>

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Excess (deficiency) of revenues over expenses	\$ (94,017)
Depreciation expense	2,605
(Increase) decrease in assets –	
Accounts receivable	115,363
Prepaid insurance	125
Prepaid other	(554)
Increase (decrease) in liabilities –	
Accounts payable	3,225
Prepaid assessments	259
Unearned income	31,447
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	58,453
	<hr/>
NET INCREASE (DECREASE) IN CASH	58,453
CASH, beginning of year	157,001
	<hr/>
CASH, end of year	<u><u>\$ 215,454</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for federal income taxes	\$ -
Cash paid for interest expense	\$ -

The accompanying notes are an integral part of these financial statements.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

NOTE 1. NATURE OF ORGANIZATION

Purpose

The Fairwood Greens Homeowners' Association (the Association) was organized in 1966 as a non-profit, non-stock corporation in the state of Washington for the purpose of operating, maintaining, and managing the common areas of a residential real estate development for the benefit of its members.

Organization

The Association was formed primarily to govern association property. The Association is responsible for the operation, preservation, and maintenance of the common areas of a residential development. The Association consists of 1,500 single-family lots located in unincorporated King County, Washington.

Common areas of the Association consist primarily of two community parks and landscaped greenbelts. Adjacent to the Association is a private golf course. Membership in the Association does not provide rights to the golf course.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents

The Association considers all interest-bearing deposits and highly liquid investments purchased with maturities of twelve months or less to be cash equivalents. At August 31, 2023, cash and cash equivalents consist of checking and savings accounts deposited with a financial institution. At times, balances may exceed federally insured limits. The Association has not experienced any losses related to this risk.

Accounts Receivable

Accounts receivable consist of all money due from homeowners, including dues, fines, and penalties.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association.

The Association capitalizes equipment at cost and depreciates it using the straight-line method over its estimated useful life. Current capitalized equipment consists of park equipment, shed, and irrigation system.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments

Association members are subject to semi-annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and maintenance of the common areas. Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At August 31, 2023, the Association had delinquent assessments and other receivables from unit owners of \$101,988, which are included in accounts receivable on the balance sheet. See Note 3, allowance for uncollectible assessments receivable.

The Association treats uncollectable assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of accounts receivable as of the beginning and end of the year are \$315,695 and \$101,988, respectively.

Unearned Income

The Association recognizes the liability to its homeowners for assessment revenue billed in advance. At each year end, four months of member assessments are prebilled. The balances of the unearned income as of the beginning and end of the year are \$157,553 and \$189,000, respectively. During the year ended August 31, 2023, the Association recognized assessment revenue of \$157,553 which was previously included in unearned income at the beginning of the year.

Federal Income Taxes

The Association has the option of filing its Federal Income Tax Return on Form 1120 under the provisions contained in Subchapter C of the Internal Revenue Code (IRC), or on Form 1120-H as a homeowners' association defined under IRC Section 528. Under IRC Section 528, exempt function net income such as membership fees and dues are exempt from income tax. All other sources of income (activities income) are taxed at a flat rate of 30%. For the current year, the Association filed Form 1120-H following the provisions contained in IRC Section 528. There is no income tax due.

The Association has determined there are no uncertain tax positions for the year ended August 31, 2023, and the accompanying financial statements contain no interest or penalties with respect to federal income taxes.

The Association's federal income tax returns remain open for examination to the extent prescribed by the Internal Revenue Code.

FAIRWOOD GREENS HOMEOWNERS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

NOTE 3. ALLOWANCE FOR UNCOLLECTIBLE ASSESSMENTS RECEIVABLE

It is the opinion of the Board of Directors that the Association may not collect all past due assessments, and hence an allowance for doubtful accounts has been established and was \$19,134 as of August 31, 2023, which is approximately 19% of the total receivable balance. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are in arrears.

As of August 31, 2023, receivables of approximately \$60,030 have a lien on the property and are 59% of the total receivable balance. The allowance for doubtful accounts is approximately 32% of the balance with liens. During the year ended August 31, 2023, \$124,346 was written off as uncollectible, 75% of which related to one homeowner who sold their property during the year.

NOTE 4. CONCENTRATIONS

The gross accounts receivable balance was \$101,988 as of August 31, 2023. One homeowner was responsible for 24% of this balance.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The Association has not developed a plan to fund those needs, and when replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE 6. LEGAL SETTLEMENT

A Homeowner submitted a legal claim against the Association for Adverse Possession and Timber Trespass related to property adjacent to Allen Park. In May 2023, the King County Superior Court awarded the claim to the Homeowner, for a total sum of \$195,000. The Association's insurance carrier paid \$157,500 and the Association paid \$37,500. The Association's portion of the settlement is included in legal settlement expense on the statement of revenues and expenses.

NOTE 7. SUBSEQUENT EVENTS

The Association has evaluated subsequent events through the date these financial statements were available to be issued on June 17, 2024.

On September 26, 2023, a special assessment of \$532,500 was approved for improvements to the Association's two community parks. Any unspent funds will be spent on ongoing park maintenance. The special assessment is \$355 per homeowner, payable in one payment or two payments of \$177.50 due in January and July 2024.