

**Eagle Ridge (Spokane)  
Homeowners Association**

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Financial Statements  
Year Ended December 31, 2013

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**Langenhorst & Self-Merritt CPAs, P.S.**  
**Business and Financial Consultants**

To the Board of Directors  
Eagle Ridge (Spokane) Homeowners Association  
Spokane, Washington

Independent Auditors' Report

We have audited the accompanying financial statements of Eagle Ridge (Spokane) Homeowners Association, which comprise the balance sheet – cash basis as of December 31, 2013, and the related statement of revenues, expenses, and changes in fund balances – cash basis for the year then ended, 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 1; this includes 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.

**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 financial position of Eagle Ridge (Spokane) Homeowners Association as of December 31, 2013, and the results of its operations for the year then ended, in accordance with the basis of accounting as described in Note 1.

**Report on Summarized Comparative Information**

We have previously audited Eagle Ridge (Spokane) Homeowners Association's 2012 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived, in accordance with the basis of accounting as described in Note 1.

**Basis of Accounting**

We draw attention to Note 1 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 that matter.

*Langenhorst & Self-Merritt CPAs P.S.*

Spokane, WA  
January 23, 2015

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Balance Sheet – Cash Basis

December 31, 2013 (with summarized financial information as of  
December 31, 2012)

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	<u>2013</u>			<u>2012</u>
	<u>Operating Fund</u>	<u>Reserve Fund</u>	<u>Total</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and cash equivalents (Notes 3 and 4)	<u>\$ 1,991</u>	<u>\$ 80,779</u>	<u>\$ 82,770</u>	<u>\$ 5,317</u>
<b>FUND BALANCES</b>				
Fund Balances (Note 3)	<u>\$ 1,991</u>	<u>\$ 80,779</u>	<u>\$ 82,770</u>	<u>\$ 5,317</u>

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Statement of Revenues, Expenses, and Changes in Fund Balances – Cash Basis

Year Ended December 31, 2013 (with summarized financial information  
for the year ended December 31, 2012)

	2013			2012
	Operating Fund	Reserve Fund	Total	Total
<b>REVENUES</b>				
Members' assessments				
Regular assessments	\$ 329,305	\$ 78,354	\$ 407,659	\$ 282,683
Late fees and interest	6,907	71	6,978	4,271
Developer's contributions (Note 4)	15,000	-	15,000	55,000
Other	6,007	-	6,007	6,991
<b>TOTAL REVENUES</b>	<b>357,219</b>	<b>78,425</b>	<b>435,644</b>	<b>348,945</b>
<b>OPERATING EXPENSES</b>				
Developer expenses	1,469	-	1,469	6,301
Insurance	18,900	-	18,900	14,914
Landscaping	103,868	-	103,868	94,592
Maintenance	25,417	-	25,417	10,965
Office expense	5,337	-	5,337	5,981
Other administrative expenses	50,077	-	50,077	65,304
Community events	13,151	-	13,151	9,046
Payroll	53,805	-	53,805	59,177
Payroll taxes	11,277	-	11,277	11,104
Real estate taxes and licenses	1,224	-	1,224	310
Streets	1,068	-	1,068	29
Utilities	72,598	-	72,598	63,442
Expenses related to work performed in prior year	-	-	-	5,879
<b>TOTAL OPERATING EXPENSES</b>	<b>358,191</b>	<b>-</b>	<b>358,191</b>	<b>347,044</b>
<b>MAJOR REPAIRS AND REPLACEMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	<b>(972)</b>	<b>78,425</b>	<b>77,453</b>	<b>1,901</b>
<b>BEGINNING FUND BALANCES</b>	<b>1,049</b>	<b>4,268</b>	<b>5,317</b>	<b>3,416</b>
Net transfer between funds	1,914	(1,914)	-	-
<b>ENDING FUND BALANCES</b>	<b>\$ 1,991</b>	<b>\$ 80,779</b>	<b>\$ 82,770</b>	<b>\$ 5,317</b>

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Notes to Financial Statements

Year Ended December 31, 2013 (with summarized financial information for the year ended December 31, 2012)

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### **NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization's activities:**

The Eagle Ridge (Spokane) Homeowners Association (the Association) was incorporated as a homeowners association corporation on February 5, 1996, in the state of Washington. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of greater than 700 residential units located on approximately 527 acres in Spokane, Washington.

#### **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 generally accepted accounting principles. 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. The cash basis differs from generally accepted accounting principles primarily because (a) the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statements are not included in the balance sheet and (b) accounts payable are not calculated or recorded in the balance sheet.

#### **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 accounts 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.
- Reserve Fund – This fund is used to accumulate financial resources designed for future major repairs and replacements.

#### **Member assessments:**

Association members are subject to quarterly assessments to provide funds for the Association's operating expenses and future major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty 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.

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Notes to Financial Statements

Year Ended December 31, 2013 (with summarized financial information for the year ended December 31, 2012)

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Subsequent events:**

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

**Prior year financial information:**

The financial statements include certain prior-year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with the cash basis of accounting. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

**NOTE 2. INCOME TAXES**

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2013, the Association was taxed as a homeowners' association and filed Form 1120-H in accordance with Internal Revenue Service (IRS) Code section 528. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners.

Pursuant to FASB ASC 740-10-50-15, as of January 23, 2015, the tax years that remain subject to examination by the IRS include the tax years ended December 31, 2013, 2012, and 2011.

**NOTE 3. 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 \$80,779 and \$4,268 at December 31, 2013 and 2012, respectively, are held in a separate account and are generally not available for operating purposes.

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Notes to Financial Statements

Year Ended December 31, 2013 (with summarized financial information for the year ended December 31, 2012)

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**NOTE 3. FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)**

In prior years, the Association had funded the reserve fund for major repair and replacement expenditures from excess operating fund assessments. During the year ended December 31, 2013, the Association adopted a program to begin accumulating funds for estimated future major repairs and replacements. The Association levied quarterly additional assessments of \$30 per member during the year ended December 31, 2013. The Association levied no additional special assessments for the years ended December 31, 2013 and 2012.

In accordance with state of Washington RCW 64.34.380, the Association's board of directors initiated a reserve study in September 2012 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 that inspected the property.

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 the 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 4. CONCENTRATIONS**

**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.

**Economic dependency:**

During the years ended December 31, 2013 and 2012, the Association received a subsidy in the amount of \$15,000 and \$55,000, respectively, from the developer which approximated 3% and 16%, respectively, of the Association's total revenues.



**Langenhorst & Self-Merritt CPAs, P.S.**  
**Business and Financial Consultants**

To the Board of Directors  
Eagle Ridge (Spokane) Homeowners Association  
Spokane, Washington

Independent Auditors' Report on Supplementary Information

We have audited the financial statements of Eagle Ridge (Spokane) Homeowners Association as of and for the year ended December 31, 2013, and our report thereon dated January 23, 2015, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property 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, or historical context. We have not audited, reviewed, or compiled the required supplementary information, and, accordingly, we do not assume any responsibility for it.

*Langenhorst & Self-Merritt CPAs P.S.*

Spokane, WA  
January 23, 2015

# EAGLE RIDGE (SPOKANE) HOMEOWNERS ASSOCIATION

## Future Major Repairs and Replacements (Unaudited) Year Ended December 31, 2013

The Association's board of directors conducted a study in September 2012 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 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.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>
Sidewalk spot repairs (5% of total)	15	\$ 23,604
Repair damaged trail sections	2	2,625
Seal fire lanes and trails	2	20,592
Replace missing/damaged monument letters	10	2,000
Replace various pump/motors	4 - 10	13,650
Replace original and newer wood fences	5 - 14	409,219
Replace Sport Court Park coated chain link fence	26	6,196
Replace street lights	10	42,240
Repair & resurface Sport Court Park Court	2	11,049
Repair Waterspray Park jets and water supply	2	2,480
Repair & resurface Whispering Pines Sport Court	2 - 5	8,450
Replace putting green turf	3	12,579
Replace Tot and Sport Court Park playsets	6	19,000
Replace Whispering Pines playsets	14	44,000
Replace benches, tables, garbage, pots	7 - 14	40,182
Replace sewage lift pump/motors	1	11,600
Re-roof storage shed	6	500
Cub Cadet	5	13,800
		<u>\$ 683,766</u>